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ABSTRACT

The 21st publication in a series of subject presentations in the field of administrative management for use by educators and businessmen who teach management courses is presented. These presentations are intended to be particularly useful to Distributive Education in the smaller community where library research facilities are limited and equipment for the production of visual aids is not readily available. The lecture is designed to be presented to the businessman in nontechnical language. The Lesson Plan is an outline of the material covered which may be used as a teaching guide. The Presentation may be used as written or modified to meet local needs and conditions. The Visual Aids are photographic copies of the set of visual aids which are available for this topic. These visuals are 8- by 10-inch colored transparencies prepared for use on overhead projectors. The Supply Department contains materials which may be reproduced locally for distribution to course participants. Cases in Point are short actual small-business management cases which may be used to augment the presentation and to develop discussion. The Incubator contains ideas for stimulating further thought and discussion by the participants. A bibliography and list of Small Business Administration field offices are included. (CK)

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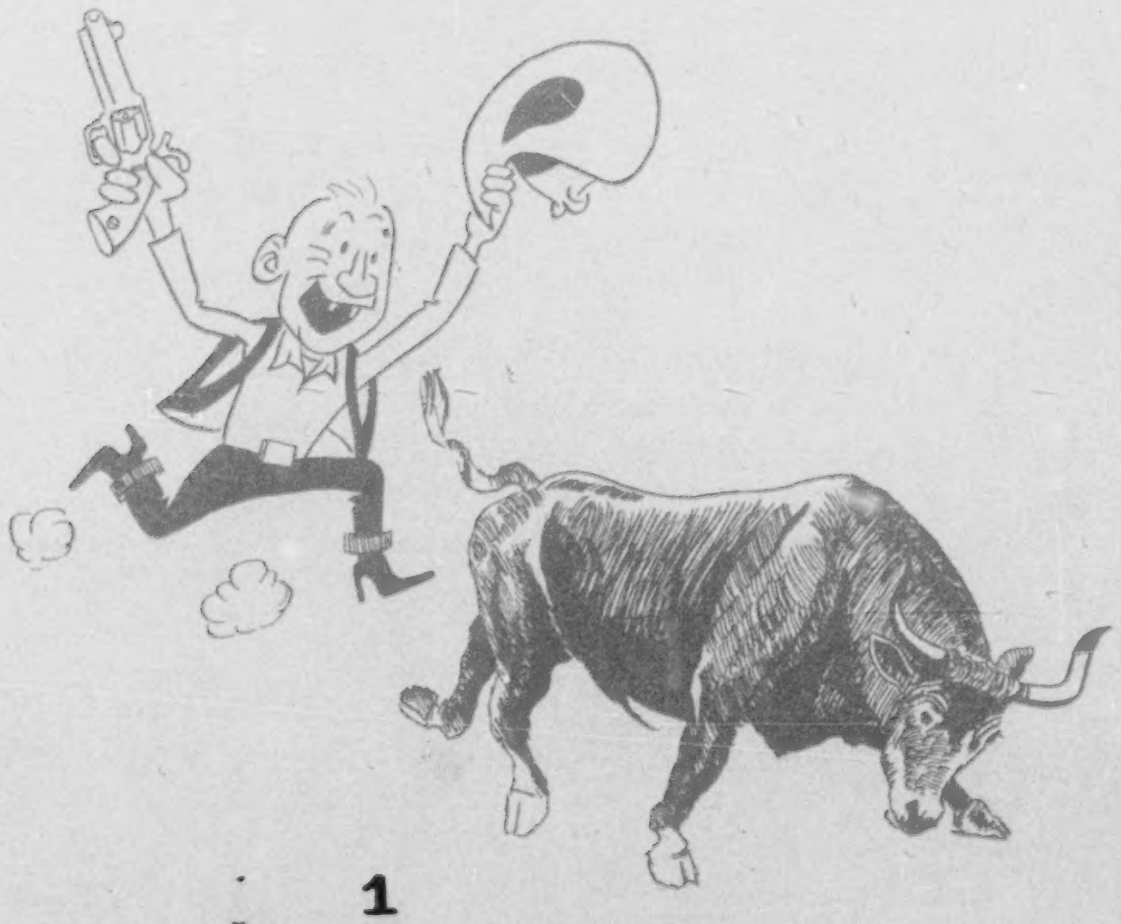
MERCHANDISE CONTROL

INSTRUCTOR'S MANUAL

MANAGEMENT DEVELOPMENT PROGRAM

SMALL BUSINESS ADMINISTRATION

TOPIC TWENTY ONE



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INSTRUCTOR'S MANUALS

in the

SMALL BUSINESS MANAGEMENT DEVELOPMENT

PROGRAM

Small Business Administration

Packaged presentations on a variety of business management subjects are available on loan, from SBA field offices, to cosponsors of management training for small business owner-managers. A set of overhead transparencies, a Focal Points brochure, and a training film (for most of the topics) form parts of each package. The topic number and title of Instructor's Manuals now available in each of two series, with the price of each and sources for purchase, are listed below.

	First Series	
1	Success and Failure Factors	$1.25
2	Records and Credit in Profitable Management	1.25
3	Managing to Sell	1.50
4	The Why and What of Bookkeeping	1.50
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20	Merchandise Pricing	2.00
21	Merchandise Control	2.00

(*Additional titles are in process.*)

These manuals are for sale from the Superintendent of Documents, Government Printing Office, Washington, D.C. 20402; or from the U.S. Department of Commerce field offices. Catalog No. SBA 1.24.

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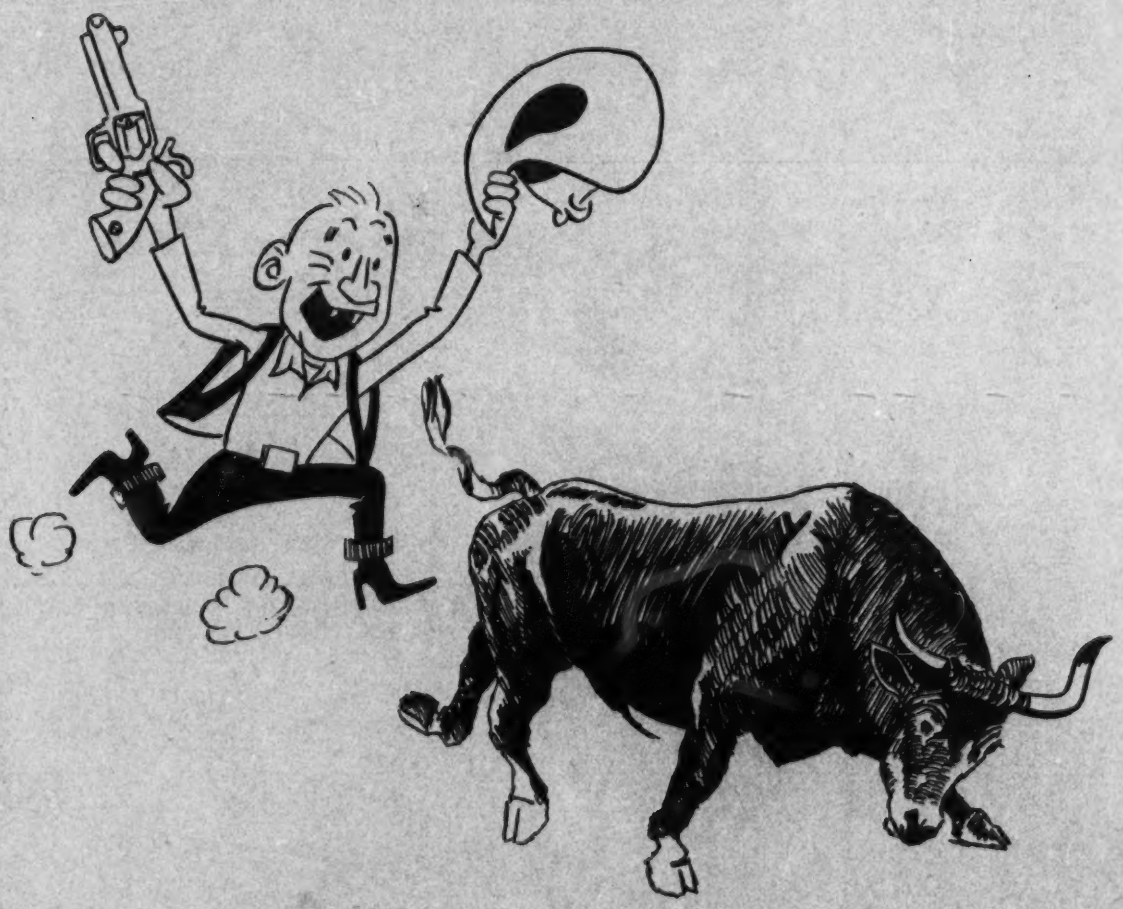

SMALL BUSINESS ADMINISTRATION

OFFICE OF MANAGEMENT ASSISTANCE

EDUCATION DIVISION

For sale by the Superintendent of Documents, U.S. Government Printing Office,
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FOREWORD

This Instructor's Manual is intended to help small businessmen meet the complex and urgent managerial problems of a rapidly changing environment, through our Small Business Management Development Program. The program was developed by the Small Business Administration to provide basic principles, skills and tools of management to owners and managers of small businesses. Enlightened management is necessary for successful small businesses which are essential to our national economy and a continuation of our free enterprise system.

The cooperation of educational and business organizations throughout the Nation has made possible the rapid progress of this management education undertaking. From a beginning with two courses in 1954 the program has grown to more than 2300 SBA cosponsored courses, conferences, problem clinics, and prebusiness workshops during this past year. Approximately 95,000 present and prospective small business owners and managers attended in the fifty states, Puerto Rico, and the District of Columbia. Cosponsors include universities, colleges, distributive education units, trade and professional associations, and local business and civic organizations. The number of cosponsors, training programs, and attendants is increasing each year.

"Merchandise Control" is the twenty-first manual in two series of subject presentations designed to strengthen and improve the management capabilities of small businessmen through management education and training. These manuals are prepared for coordinators and instructors of SBA cosponsored management training sessions, but may find application in a wide range of training situations.

This manual presents, for educators and businessmen who teach management to small business owners and managers, a complete subject presentation for one or more training sessions. The package includes a lesson plan, lecture text, visual and audiovisual aids, handout materials, problem cases, do-it-yourself assignments, and an annotated bibliography.

A packaged form of this kind of material has proved valuable in establishing new and in maintaining existing management programs. It emphasizes the importance of continuing management education for the small business owner-manager, and offers methods and tools for speedier, more successful endeavors. For the busy instructor it is a time and labor saving device in his preparation.

The author of this instructor's manual, Paul A. Litecky, is founder and president of an audiovisual firm and is a recognized specialist in business communications. Artwork and visuals were designed and developed by SBA's James W. Truett, Jr.

This publication was prepared with the supervision of Dr. Weston R. Clark, Training Specialist, and the administrative direction of Wendell O. Metcalf, Chief, Education Division, Office of Management Assistance.

Small Business Administration

April 1971

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*A set of the transparencies and the film, "A Step in the Right Direction," are available from the nearest SBA field office (see inside back cover for listing). The 11 by 11-inch colored transparencies are for use with overhead projectors.

**Among the materials selected as "handouts" to participants are several SBA free publications. Current information on the availability of suggested and new SBA publications may be obtained from an SBA office.

A WORD ABOUT THIS MANUAL

This instructor's manual was prepared for use by instructors and discussion leaders in conducting one or more sessions of SBA cosponsored training on *merchandise control* for small business owners and managers. It is written non-technically and in stimulating style and draws on actual examples from the businessworld.

The manual has wide-range applicability in management education and training situations. Use can be made of it in management courses, conferences, problem clinics, and in supplementing the SBA package of materials provided workshops for prospective small business owners.

Lecture material interspersed with 10 transparencies and 6 Instructional Items is sufficient for a 45- to 60-minute presentation. When combined with the SBA film "A Step In The Right Direction," adequate discussion, and possibly the Case Study, a comfortable 2- to 3-hour session is feasible. Should multiple sessions be desired for more extensive and indepth treatment of the subject, the Suggested Incubator Assignments, analysis of items in the Supply Section, and information drawn from the bibliographical sources can be especially useful.

Utilization of the supplementary materials helps the participant gain a deeper understanding of the subject and provides a basis for group discussion. In addition to the resultant reinforced learning, the instructor's selections and treatment of material may be made to meet diverse styles and techniques of teaching this management subject. This allows for flexibility of approach to meet the special and critical requirements of each group. There is opportunity also, for the instructor to enrich the text with his own knowledge and experience.

However, if the package as structured is followed, an effective presentation of *merchandise control* can result. Use of the transparencies is particularly urged. Experience has shown that skillful use enhances interest as well as grasp and subsequent recall of meanings presented.

Should time limitations necessitate shortening the presentation, selected changes are feasible, such as condensing Section VI of the "Lesson Plan" and combining Section III and IV. Such modifications could be made and maintain a meaningful treatment.

This subject can best be handled by one who has specialist knowledge in merchandise control, is familiar with small business, and is experienced in conducting training sessions for small business owners and managers.

Persons or organizations interested in sponsoring management education and training for small business owner-managers will find that much of the work involved in subject preparation has already been done. This is found in the packaged subject presentations, designed for instructors.

For those who cosponsor training with the SBA, a selection of needed instructor's manuals may be provided on loan from the nearest Small Business Administration field office. Available with each manual are a set of 11″ x 11″

transparencies in color for overhead projection, and a Focal Points leaflet for distribution to potential and actual participants. Also available from SBA offices are a management training film for most of the Topics, selected SBA publications for handouts, and a *Guidebook for Coordinators of Management Training for Small Business.*

SBA field offices are listed on the inside back cover of this publication. Titles of available Manuals appear on the inside front cover. Single manuals or complete sets may be purchased from the Superintendent of Documents, Government Printing Office, Washington, D. C. 20402.

The various sections of this instructor's manual are separated by divider sheets of different colors. These colors are given here and the contents of the sections are briefly described.

Gray—*The Lesson Plan.* An outline of the material covered which may be used as a teaching guide or as framework for developing an individualized presentation. The lesson plan contains two columns: the left-hand column is an outline of the presentation; the right is a step-by-step guide to the visual, audiovisual, and instructional aids.

Rust—*The Presentation.* A carefully prepared lecture presentation which may be used as written or modified to meet local needs and conditions. It may also be used as a source of information by a person preparing his own lecture.

Buff—*The Visual Aids.* Photographic copies of the set of 10 visual aids which are available for this Topic. These visuals are 11″ x 11″ colored transparencies prepared for use on overhead projectors. The lecture presentation and lesson plan are keyed to the visuals. A brief description of the SBA training film on merchandise control titled, "A Step In The Right Direction." The film and a set of transparencies may be borrowed from the nearest SBA field office.

Green—*The Supply Department.* Materials which may be obtained from SBA field offices or reproduced locally for distribution to training participants. The Focal Points leaflet, in colors and design identified with this manual, is usually available in quantity and may be useful in promoting attendance for a scheduled session and as a handout item to participants. Six full-page Instructional Items are shown, which may be reproduced locally for classroom use. Your nearest SBA office can furnish information on current availability of SBA free publications reproduced in this section, as well as titles published subsequent to this volume.

Yellow—*Cases in Point.* Short actual small business management cases which may be used to augment the presentation and to develop discussion, or as the basis for a second session on the same topic. One such case is presented.

Blue—*The Incubator.* Ideas for stimulating further though and discussion by the participants. This material may be reproduced locally for distribution to training participants. "Assignments" are designed to aid in retention of the subject matter of the session.

Note: See back cover for index reference to the divider sheets.

Education Division

INSTRUCTIONAL SUGGESTIONS

INSTRUCTIONAL FORMAT SHOULD BE STIMULATING

Use The Three B's

- ***Base*** instruction on problems at learners level.
- ***Blend*** instruction with job experience.
- ***Brighten*** instructions with variety of ***illustrations, investigations*** and group ***participation.***

FOUR BASIC STEPS OF INSTRUCTION

Instructing is like selling - -

Selling	Instructing
1. Approach customer Promptness Put at ease Awaken ***interest***	1. Prepare the group Start on schedule Put group at ease ***Awaken*** interest
2. Present merchandise or service Select merchandise to fit need Show one item at a time Demonstrate ***selling points***	2. Present information Gauge material to needs Present one point at a time ***Show, illustrate, question***
3. Have customer take part Get merchandise into customer's hands Let customer "try on" merchandise Answer questions and meet objections	3. Have group participate Get group to ***discuss*** Have members ***demonstrate*** or ***use*** ideas Answer questions and correct errors
4. Bring sale to close Help customers decide; ask: "which" "for whom" "when" Be sure merchandise fits need Summarize points of care and use Handle mechanics of sale Pave way for return visit	4. Bring meeting to a close Check on understanding; ask: "why" "how" "when" "what" "where" "who" Be sure group now can use information Summarize "take away" ideas Make a definite conclusion Pave way for next session

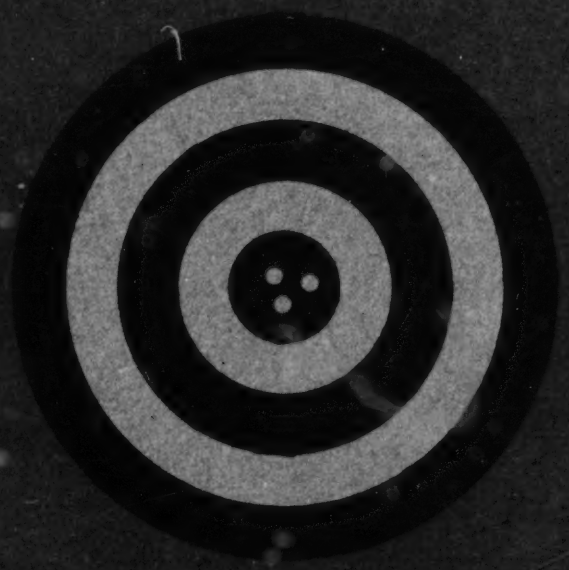
How To Deal With "Difficult Customers"

	What To Do
THE "MOUTH"—wants to do all the talking.	**Take the play away from him by asking others to comment on his remarks.** **Deliberately turn to others and ask for their opinions. Avoid looking at him.** **Tactfully ask him to give someone else a chance, or talk to him in private.**

THE "ARGUER"—constantly tries to catch you up.	**Keep cool. You can never "win" an argument. Always make him back it up. Ask for evidence.** **Avoid getting personal.** **Refer the question to the group and then to him.**

THE "MOUSE"—is in every group.	**Call him by name and ask him for an opinion. Ask him an easy question he is sure to answer well, then praise him. This person is worthy of your attention.**

THE "SO-WHATER"—is disinterested.	**Point up something he has done as a good example of the point being stressed. Ask direct questions affecting his work.**



THE LESSON PLAN

A Keeping on Target

Section

Good teaching depends on good planning. A session objective or target must be set. Then the points are selected that will enable one to keep hitting at the heart of that target.

The primary aim of the instructor is to first give the participant the things he MUST KNOW, then the things he SHOULD KNOW. When these two aims have been achieved, the topic can be embellished with the "nice to know and helpful to know elements.

The following lesson plan is "on target." If it is used as a guide, it will enable the instructor to emphasize the major points while at the same time he stimulates the participant to grasp the subject.

LESSON PLAN

Topic: MERCHANDISE CONTROL

Objectives: To identify the need for merchandise control systems.

To identify and examine a variety of types of merchandise control systems.

To set guidelines for a practical approach to individual systems of merchandise control.

Outline of Session Content	*Visual and Audiovisual Aids Instructional Items*
I. SBA Management Training Film on Merchandise Control	"A Step in the Right Direction" (Color, 12 min. 18 sec.)
II. Importance of Merchandise Control	
III. Defining Merchandise Control	
A. A simple definition	
B. Merchandise Control Goals	
C. Merchandise Control vs. Inventory	
IV. Dollar Control and Unit Control	Visuals #1 and #2
V. Unit Merchandise Planning and Budgeting	Visual #3
A. Planning Future Sales	
B. Calculating Open-to-Buy	Visual #4
C. Establishing Style Number Control	

VI. Merchandise Categories — Visual #5

A. Maintained reorder items — Visual #6

B. Maintained selection stocks — Visual #7

C. Fast-turning selection stocks — Visual #8

VII. Merchandise Control Systems

A. Rotated Merchandise Control System — Instructional Items #1 and #2

B. Perpetual Merchandise Control System
   1. Style or Model Activity Record — Instructional Item #3
   2. Daily Sales and Stock Report — Instructional Item #4
   3. Weekly Report of Sales and Stocks — Instructional Item #5
   4. Monthly Sales and Stock Plan Report — Instructional Item #6

C. Visual Merchandise Control Systems
   1. Bin Ticket System — Visual #9
   2. Two-Bin System

D. Partial-Visual Merchandise Control Systems
   1. Visual Forward Stocks
   2. Color-Coding

E. Electronic Merchandise Control System
   1. Adoption of a standardized system of classification
   2. In-store preparation of input information for computer use
   3. Central computer processing and report preparation.
   4. In-store analysis of computer-prepared reports

VIII. Essentials of Workable Merchandise Control System

IX. Conclusion — Visual #10

MERCHANDISE CONTROL

SBA MANAGEMENT TRAINING FILM

ON

MERCHANDISE CONTROL

[Note to the instructor: It is suggested that the presentation start with a showing of the SBA film titled, *A Step In The Right Direction.* It is a 12 minute and 18 second film in natural color with professional leading characters.

The film gives dramatic focus to the importance and operation of effective merchandise control procedures, and provides an introductory basis for your presentation and subsequent group discussion.]

IMPORTANCE OF MERCHANDISE CONTROL

If you have ever taken a good look at the small retail stores in your own community, the chances are that you noticed several stores which always seem to have just the right merchandise for sale at just the right prices. These stores have real competitive strength. But, as you may already suspect, this situation didn't develop by accident. It probably came from an effective system of merchandise control.

When a store—or a department within a store—is initially stocked, the merchandise assortment is usually balanced and quite complete. Within a short time, however, selling from this stock seriously alters the assortment. Goods that have been sold must be replenished. Slow-moving goods that are not in demand should be eliminated from the selection and replaced with newer, more acceptable merchandise. To accomplish this efficiently, it is vital to have reliable information on the condition of the stocks of merchandise offered for sale. This means an effective system of merchandise control.

Big stores consider merchandise control so important that they are willing to spend lots of money—even purchasing the most modern electronic equipment—to have it. They use merchandise control as part of a buying method to keep stocks from getting too small. Just as important, effective control methods prevent stocks from becoming too large.

For the small store operator this is certainly one of the most important phases of good management; namely, preventing excessive, insufficient, or unbalanced inventories. Underbuying can seriously affect sales by not keeping merchandise assortments complete enough to satisfy the customer. But overbuying can prevent the merchant from paying his bills on time, from replenishing staple stocks, and from adding new merchandise lines when he should because so much of of his capital is tied up in slow-selling or unsalable merchandise. While it does take hard work, and diligent application, small stores as well as the big ones can have effective merchandise control.

DEFINING MERCHANDISE CONTROL

A Simple Definition

Merchandise control is a management tool designed to make possible the efficient maintenance of ideal merchandise assortments. It consists of a practical system of recording and reporting quantities of merchandise on hand and on order, broken down into specific items or groups.

Merchandise Control Goals

While there are many different systems of merchandise control, they are all designed to achieve similar goals. These goals are:

1. To help in determining the correct quantities within merchandise assortments to satisfy the requirements of the store's customers.
2. To guide the purchase of new merchandise in each classification according to price ranges that will serve the store's clientele.
3. To simplify merchandise ordering.
4. To assist in selecting items for sales promotion.
5. To expedite the liquidation of slow-moving items.

Merchandise Control vs. Inventory

Merchandise control—sometimes called stock control—is often confused with taking inventory. Some people even believe they mean the same thing. For clarification, let us consider the following definitions:

Merchandise Control is the day-to-day review of the store's shelves; what is there, what is on order, and what needs to be ordered.

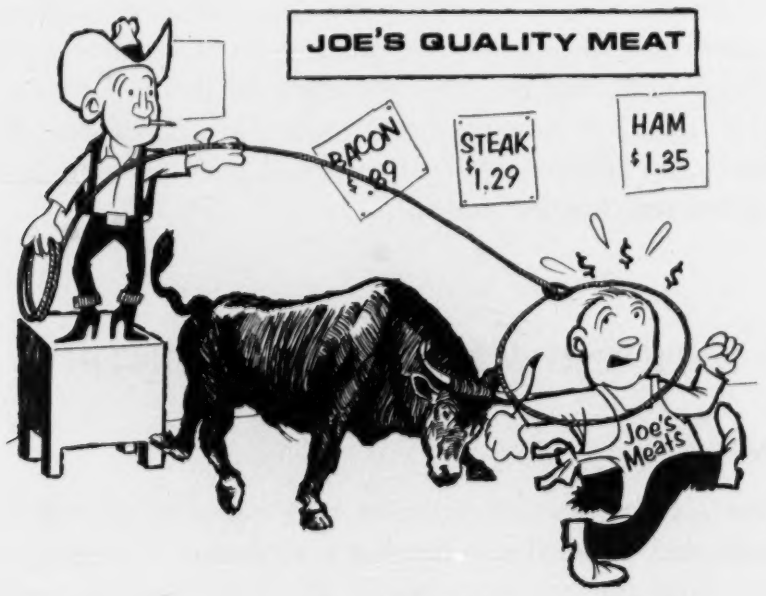
Inventory taking is the periodic physical count of the store's stock and its evaluation at current market prices.

An accurate inventory is essential to developing a workable merchandise control plan, and is an effective check on the accuracy of the record-keeping procedures used in the control system.

DOLLAR CONTROL AND UNIT CONTROL

Depending on a store's individual requirements, the control system selected for its use may be very complex or very simple. It can be a Dollar Merchandise Control System, or a Unit Merchandise Control System.

(*Show Visual #1*)



Visual No. 1

For example, a small butcher shop could very easily concentrate on a *Dollar Merchandise Control System*. The owner would probably be concerned with only two merchandise classifications—meat and other items. When he rings up sales on his cash register, he uses one code key for meats, and another key for other items. The register tape—in dollars—would be the basis of his control system. A quick glance across his display cabinets and his meat locker would give him his inventory, and he could almost figure his new purchase requirements in his head.

In other types of stores the *Unit Merchandise Control System* is desirable because of the store's larger size, its greater variety of merchandise, and/or the problem of more sales personnel. In such a store, it is impractical to expect any individual to memorize all merchandise stocks and keep track of every individual sale that changes the stock. A system of recordkeeping is employed that measures the merchandise in units rather than in dollars.

(*Show Visual #2*)

Visual No. 2

In a men's haberdashery, for example, it is much easier to record 50 shirts at $7.50 each in stock, 24 on order, and 14 sold last week, than to say that there is $375 worth of $7.50 shirts in stock, $180 in retail on order, and $105 worth were sold last week.

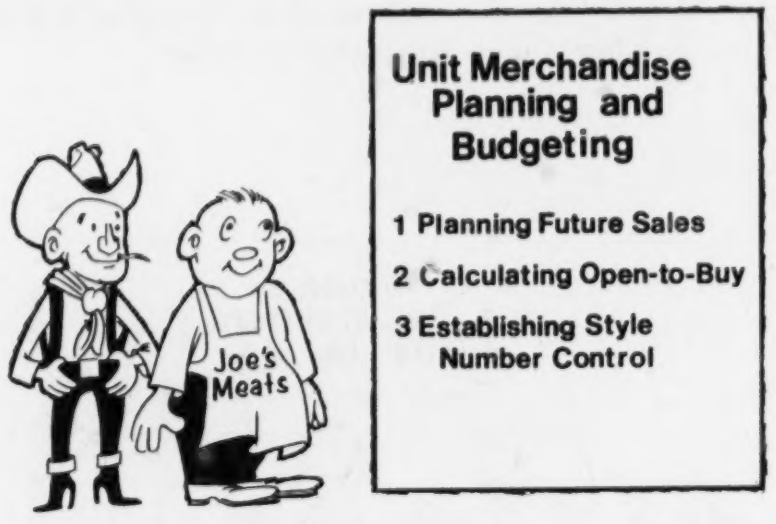
For merchandising buying plans or other reporting or planning purposes, a unit control report can always be converted to dollars. But the recording and reporting of an extremely wide variety of merchandise is more effectively done in units, and provides the merchant with the important information which will aid many of his business decisions.

UNIT MERCHANDISE PLANNING AND BUDGETING

An important fundamental of good planning is to keep stock purchases in line with the store's sales. To accomplish this, many merchants utilize Unit Merchandise Planning and Budgeting.

Unit Merchandise Planning and Budgeting is simply the preparation of an estimate of future sales and stock requirements, by units, to guide the store owner or operator in purchasing new or replacement merchandise. It could just as easily be called *Purchase Planning*.

(*Show Visual #3*)



Visual No. 3

There are three logical steps in Unit Merchandise Planning and Budgeting. They are:

A. Planning Future Sales
B. Calculating Open-to-Buy
C. Establishing Style Number Control

Each step is equally important, and proper attention to one step assures success in following the next one. Let's look at these steps in more detail.

Planning Future Sales

In planning for future business, the merchant is naturally concerned with getting all the sales he can. His first move is to study what can be done to increase weekly sales of each line of merchandise. Such things as advertising, new window displays, revised interior and point-of-sale displays must be considered. He reviews past sales records and notes that one item sells at about six units per week. Will future sales hold to this level? Will they increase?

At this point, the merchant must use his judgment. He must draw upon his experience and make his best estimate of weekly sales. Previous sales records, of course, are more helpful in dealing with staple merchandise than with special fashion items for which there is no precedent. All of these elements must be considered when planning future sales.

It is necessary to determine just how far in advance sales should be planned for each line of merchandise. Every line of merchandise will have its own planning period (usually called the buying period) which is determined by the frequency of stock reviews (order review period), and the time it takes to receive the merchandise once it is ordered (delivery period).

For instance, if the merchant has decided to review a particular line of merchandise once a week, and delivery takes 3 weeks, the buying period becomes 4 weeks. Sales for this line of merchandise are then planned 4 weeks ahead. Assuming that the sales rate of six items per week is going to remain for the period under review, sales planning for this line is complete. As you can see, it takes more time to discuss it than to accomplish it.

Once future sales have been planned, it is necessary to record all sales as they occur. In this way, the merchant can determine whether sales are running ahead, behind, or keeping right up with the plan.

Calculating Open-to-Buy

The term "Open-to-Buy" is one of the most commonly used expressions in the retail business and yet one of the least understood. Before we learn to calculate Open-to-Buy for the merchandise we wish to sell, let's be sure we understand just what it means. If we use the figures in the preceding example, the buying period is 4 weeks, and the rate of sale is six per week. So, for the next 4 weeks we must have a stock of 24 units. (For now, we are ignoring basic stocks and cushion stocks to make the calculation simpler.)

Open-to-Buy simply means that we look at the amount of stock to be provided—24 units—and look at our inventory records for the stock *already* provided (on hand and on order). The difference, if any, is our Open-to-Buy. Let's assume that we find 11 units on hand and none on-order. Stock to be provided is 24 units, less stock already provided of 11 units, giving us an Open-to-Buy of 13 units. In practice there are a few ther factors to take into consideration, but the calculation remains essentially the same.

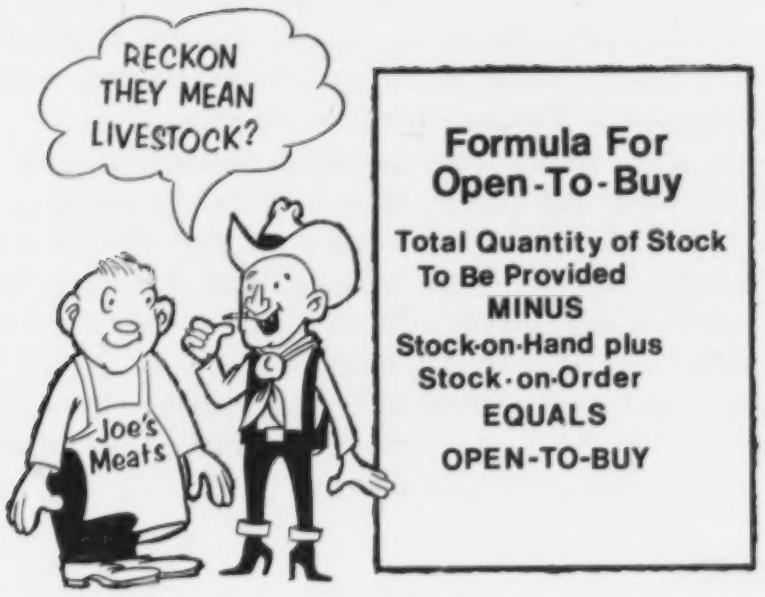
When we have planned sales for a particular buying period, we normally have also provided for a planned ending stock. In other words, at the end of the sales period we expect to have a certain number of units on hand. The reason for this is twofold. First, depending upon the type of merchandise, there is a certain amount of stock that must be on hand at all times to offer any one customer an adequate selection. This is usually called the *basic stock.*

With an article like toasters, the basic stock could very well be one of a style. With an article like women's hosiery, where a customer often buys 3 pairs at a time, the basic stock could be 3 pairs in every style and color. If a store has decided to carry 24 sizes of men's trousers, the basic stock could be 24. If only 23 sizes were on hand, the store could lose a sale since it would be unable to fit a customer of the missing size.

Second, many merchants try to provide a *cushion stock* in addition to the basic stock. This cushion is to take care of any potential increase in sales volume during their regular sales planning period. The combination of the *basic stock* and the *cushion stock* make up the planned ending stock.

Open-to-Buy calculations can be made for each item by size, style, and color. But for now, we'll assume that we are dealing with one style, and one color.

(Show Visual #4)



Visual No. 4

We may make use of a formula to calculate Open-to-Buy.

Total Quantity to be provided
(includes planned sales for buying period plus planned ending stock which consists of basic stock and cushion stock)

minus

On-hand and on-order

equals

Open-to-Buy

Returning to our earlier example, let's assume the following:

Basic Stock——1 unit

Cushion Stock——6 units (In this case, one week's supply)

Buying Period——4 weeks

Average weekly sales——6 units

Thus, with a planned sales quantity of 24 units, and a planned ending stock of 7 units, we have a total quantity to be provided of 31 units.

Having established an inventory of 11 units, we can see that our Open-to-Buy is now 20 units. However, if there were already an order in the works, say

for 5 units, this amount would have to be subtracted from the 20 units to determine the actual Open-to-Buy. This then would leave an Open-to-Buy of 15 units; an amount we could order immediately.

Carefully kept records are essential to the success of the unit merchandise planning and budgeting system. The formulae are simple, but you must put accurate figures into them to make them work for you.

Establishing Style Number Control

In the example just discussed, the item itself was a style number, and controlling the item controls the style at the same time.

In other items of merchandise, if a group of items are kept under a common control entry, there must be some method of determining which style number of the group is the fastest selling, and which the slowest. A supplementary record of sales by specific style number will permit more effective reordering of merchandise and prevent overstocking of slow-moving merchandise.

MERCHANDISE CATEGORIES

If all types of merchandise were bought, sold, and stocked in the same manner, it would be a fairly simple matter to devise one standard procedure for merchandise control. However, there are three different categories into which most merchandise items fall, and the control system for each category should vary to be most effective. The categories are:

(*Show Visual #5*)

THAT STEER WAS SURE A FAST TURNING STOCK.
Joe's Meats
Merchandise Categories
1. Maintained Reorder Items
2. Maintained Selection Stocks
3. Fast Turning Selection Stocks

Visual No. 5

1. Maintained reorder items.
2. Maintained selection stocks.
3. Fast-turning selection stocks.

We will examine each of the categories in detail, but before we do, we should point out a common denominator that the merchandise control systems selected will have. They each provide the merchant with an important pair of outputs that let him know:

A. When an order should be placed.

B. What quantity to order.

Maintained Reorder Items

This category includes merchandise items that are of a staple or semi-staple nature, and are normally reorderable over a long period of time—usually more than a year. This type of merchandise typically does not change in model or style very rapidly, and would include items such as the following:

Appliances	Hardware
Art Needlework	Housewares
Books	Luggage
Cameras	Notions
Candy	Radios
Chinaware	Sporting Goods
Domestics	Stationery
Glassware	Toilet Goods

In ordinary circumstances, merchants would carry all items in these classifications for immediate delivery.

(*Show Visual #6*)

Visual No. 6

The staple nature of this merchandise allows any errors in buying to be adjusted gradually—increasing the frequency of ordering if underbought, or decreasing the frequency if overbought. The control system can be very simple, with fairly long intervals between buying periods and reports. As a rule, the merchandise in these classifications is controlled by recording each style number individually. The unit control records are actually sales performance records of each style number.

Maintained Selection Stocks

This category of merchandise normally is composed of items that come in a variety of styles, most of which can be substituted for each other in making up a customer's selection. These items are most often style items, and require a market review to select new styles to complete classifications whenever new purchases are made.

Merchandise in this category would include such items as:

Bedding	Men's Wear
Boys' Wear	Neckwear
Curtains & Draperies	Negligees
Floor Coverings	Pictures
Girls' Wear	Shoes
Gloves	Silk Underwear
Jewelry	Trimmings
Lamps	Yard Goods

(*Show Visual #7*)

Visual No. 7

The Unit Control Records in these categories should be arranged according to classification and price range. Whenever reorders are to be placed in maintained selection stocks, the entire customer's selection must be carefully reviewed. As you can see, this involves a more detailed effort than the previous merchandise category. Fast-selling items will usually be more difficult for the store to obtain from its suppliers. Therefore, sales planning must be expanded to anticipate stock requirements for a longer period of time than for slower-selling items in this category.

Fast-turning Selection Stocks

Typically, merchandise in this category would be ready to wear, and would include such items as:

Coats	Housedresses
Dresses	Millinery
Furs	Sportswear
Girls' Apparel	Suits

(*Show Visual #8*)

Visual No. 8

Sales planning for this merchandise must be very flexible and set up to change rapidly as sales figures indicate. Overbuying in this type of merchandise can be disastrous because mistakes cannot be overcome gradually as in other categories.

Careful analysis of sales and inventory records is necessary. Open-to-Buy calculations for this category are best done on at least a weekly basis.

Style number control is of critical importance in this category. Many stores require a daily review of styles sold, and maintain supplementary records that

can pinpoint fast moving merchandise. With this constant control, reorders can be placed rapidly to take advantage of short buying patterns by the customers.

MERCHANDISE CONTROL SYSTEMS

The variety of merchandise control systems and the ingenuity of merchants in adapting and modifying them to meet their specific needs make the job of listing all of them impossible. However, we can look at several of the most popular systems, and see how they can be applied to a variety of requirements.

The systems we will examine are:

1. Rotated Merchandise Control System
2. Perpetual Merchandise Control System
3. Visual-Merchandise Control Systems
4. Partial Visual Merchandise Control Systems
5. Electronic Merchandise Control Systems

Rotated Merchandise Control System

The rotated system of merchandise control requires physical stock counts on a rotated or staggered basis. Sales figures are then obtained by subtracting each stock count in turn from the total of the previous count, and taking into consideration any merchandise received into stock since the last inventory. This system is often used for merchandise which is staple or semi-staple in nature.

The recordkeeping in this system is extremely simple, and there are several additional benefits that should be weighed carefully.

(Refer to Instructional Item No. 1)

NOTE: Instructional Items No. 1 through 6 appear on unnumbered pages 19–24. These items also are provided in the Supply Department to be duplicated and used as handouts to each participant.

First, the record itself. The information to be listed should include a sales history of the item for the previous year by quarters. Adequate room should be provided on the form for the number of weeks of coverage desired for the item. Finally, information should be entered concerning delivery period, basic stock desired, minimum pack, cost, and retail price so that an assistant may take care of routine reordering when necessary.

In practice, the routine is simple. Certain portions of the stock are scheduled for counting on certain days according to the needs of the department, the rate of stock turn desired, and the delivery practices of suppliers. The counts are made by the sales personnel responsible for that particular department. The procedure of counting the stock provides the sales people an intimate knowledge of the stock and a feeling of participation in the store's operations beyond the sales function.

After each count, the quantity of stock is entered, and sales are calculated and entered. If there were customer returns during the period, negative figures can be entered. The form should provide for the entry of orders and stock receipts. With all of this information sales period summations can be calculated rapidly.

(Refer to Instructional Item No. 2)

While this one basic record is adequate and forms a complete system by itself, it can be helpful to have a seasonal item report, listing sales and stocks by classification and price line, month by month, over an entire season. This procedure aids in reviewing a department's merchandise assortment. In effect, this provides a summary dollar report of sales by classification. Specific details such as size, color, and so on would, of course, still be available on the original record.

Perpetual Merchandise Control System

The perpetual system of merchandise control provides information about individual items by subtracting individual sales from stock records on a continuing, frequent basis. To utilize this method, individual stub price tickets, tallies, or sales check analysis can be employed.

This system is used primarily where the merchandise is subject to abrupt changes in fashion, requiring fast reordering to take full advantage of the marketing period, and enabling rapid liquidation of unpopular or outmoded stocks. In addition, the system finds favor for merchandise with high unit value. It should be pointed out that with some merchandise items, such as selected ladies style apparel, it may at times be difficult, if not impossible, to reorder.
An effective perpetual merchandise control system includes these basic elements:

1. STYLE OR MODEL ACTIVITY RECORD

(Refer to Instructional Item No. 3)

A complete history of the item from its initial order to date, listing all stock receipts and sales in order.

2. DAILY SALES AND STOCK REPORT

(Refer to Instructional Item No. 4)

A listing of all items sold on the last (previous) sales day. The listing should include notations of items with which there was unusual activity, and an "attention" notation of items which are running low in stock. Thus, the reviewer can take prompt action from this report without going though all of the details of the records.

3. WEEKLY REPORT OF SALES AND STOCKS

(Refer to Instructional Item No. 5)

The weekly report usually lists unit sales and stocks by price lines within classifications. It readily reveals any lack of balance in the merchandise assortment and permits prompt action. It is also valuable as a summary for determining reorders, promotion merchandise, or the need for liquidation of individual items.

4. MONTHLY SALES AND STOCK PLAN REPORT

(Refer to Instructional Item No. 6)

This report is quite similar to the weekly report, but it permits comparison of sales on a longer time base. The monthly report is useful in making comparisons with the sales plan.

ROTATED UNIT CONTROL RECORD

ROTATED UNIT CONTROL					1	2	3	4	5	6	7	8	9	10	11	12	13	TOTAL
STYLE	size	min pack	cost															Quarterly
	min qty	del time	retail	date	2/2	2/16	2/30	3/13	3/27	4/11	4/25	5/8	5/22	6/5	6/19	7/3		sales
WHITE BUTTON DOWN COLLAR	15-36	4	28.50 DOZ.	on hand	24	23	22	22	20	19	20	17	17	15	16	16		this year
				on order														8
	12	1 WK.	3.95	rec'd														last year
				sales	1	1	0	2	1	-1	3	0	2	-1	0	0		9
	15½-30	4	28.50 DOZ.	on hand	39	32	28	28	25	24	26	30	27	28	29	25		this year
				on order						8								26
	24	1 WK.	3.95	rec'd							8							last year
				sales	7	4	0	3	1	-2	4	3	1	-1	4	2		31

SEASONAL ITEM REPORT CONTROL BOARD

SEASONAL ITEM REPORT	SELLING SEASON																	
Classification	FEB		MARCH		APRIL		MAY		JUNE		JULY		AUG		seasonal summary	
PRICE	stock units	sold units	stock units	sold units	stock units	sold units	stock units	sold units	stock units	sold units	stock units	sold units	stock units	sold units	stock units	sold units	sold units	end stock

STYLE or MODEL ACTIVITY RECORD

UNIT CONTROL RECORD												SOURCE:										
RECEIVED			CLASSIFICATION NO.							STYLE		RETAIL							COST		ON ORDER	
date	no. units	to date	sales week begin	M	T	W	T	F	S	sales to date	units on hand	sales week begin	M	T	W	T	F	S	sales to date	units on hand	date	no. units
RECEIVED			CLASSIFICATION NO.							STYLE		RETAIL							COST		ON ORDER	

INSTRUCTIONAL ITEM NO. 3, TOPIC 21

DAILY SALES and STOCK

DEPARTMENT		CLASSIFICATION		DESCRIPTION
WEEK ENDING		WEEK ENDING		
PRICE		PRICE		
MON		MON		
TUE		TUE		
WED		WED		
THU		THU		
FRI		FRI		
SAT		SAT		
TOTAL		TOTAL		

DEPARTMENT **CLASSIFICATION** **DESCRIPTION**

WEEK ENDING					WEEK ENDING					WEEK ENDING				
price	number units sold	units in stock	open to buy	on order	price	number units sold	units in stock	open to buy	on order	price	number units sold	units in stock	open to buy	on order

MONTHLY SALES and STOCK PLAN REPORT

DEPARTMENT: **CLASSIFICATION:**

SALES				STOCK				SALES				STOCK			
week ending	last year	this year		last year	this year			week ending	last year	this year		last year			
		planned	actual		planned	actual	on order			planned	actual		planned	actual	on order
cumulative to date								cumulative to date							
cumulative to date								cumulative to date							

INSTRUCTIONAL ITEM NO. 6, TOPIC 21

The perpetual merchandise control system provides an effective guide to planning and purchasing in direct relation to consumer demand. The system is moderately complex, but the nature of the merchandise it is designed to control requires it.

Visual Merchandise Control Systems

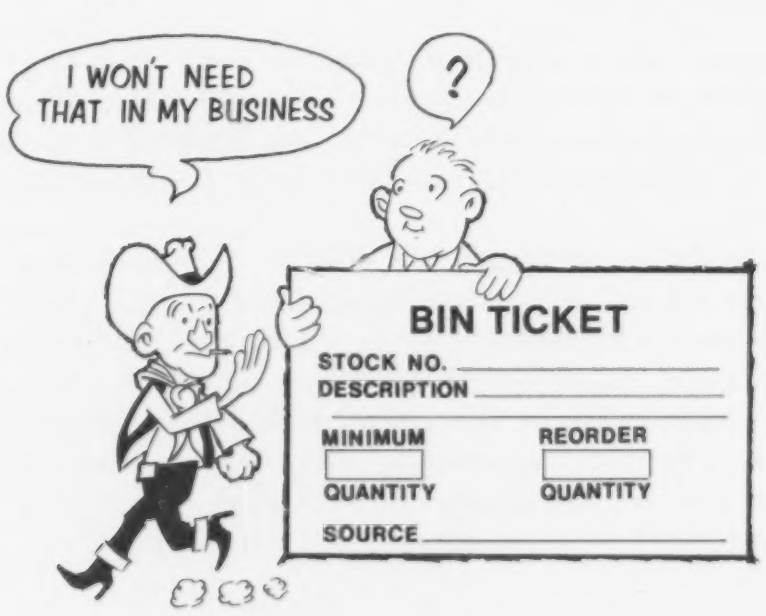
Visual indicators can expedite reordering and simplify recordkeeping for certain types of merchandise. In some cases, a visual system may be used as a complete system. As mentioned earlier, it provides the two important outputs that inform the merchant:

A. When an order should be placed.
B. What quantity to order.

BIN TICKET SYSTEM

One visual system places all records on the price tag or bin ticket, such as this one widely used by hardware dealers.

(*Show Visual #9*)



Visual No. 9

The ticket provides for listing the stock item by catalog number, resource, item description (in the event that the item is ever completely sold out), the minimum quantity to be kept on hand, and the reorder quantity to be purchased in each reorder period. Whenever the item is sold, and the sales person removes a unit from the bin, the quantity on hand is automatically checked.

Reordering can be handled in two ways. A "want" list can be kept in a convenient place and notations made on it whenever any merchandise approaches the reorder quantity; or at predetermined intervals an order can be written during a visual check of all bins of merchandise.

Two-bin system

Another variation of visual merchandise control is the two-bin system. In it two bins are utilized for each item. The bins, designated "A" and "B", are filled with the merchandise to be controlled. Merchandise is sold from bin "A" until it is empty. Then an order is placed for enough merchandise to fill *both* bins. While awaiting delivery of the new stock, the merchandise in bin "B" is sold. The reorder merchandise is delivered just as bin "B" is empty. Both bins are refilled and the cycle begins once again. The size of the bins is chosen according to the sales rate of the merchandise, the reorder delivery time, and the physical bulk of the merchandise.

In practice, two separate bins are not actually required. One bin, large enough to hold the total quantity, will be adequate if a level marker is used to indicate reordering time.

Partial-Visual Merchandise Control Systems

There are two techniques to be considered under partial-visual merchandise control systems—visual forward stocks and color-coding.

Visual forward stocks

A variation on the bin system is utilized by some merchants who maintain large stockroom or warehouse quantities of merchandise. They ignore their "forward" stocks—the merchandise in the store display fixtures—and base their reordering on receipt and withdrawal information from the stockroom or warehouse records.

Forward stocks are then controlled visually. The fixtures are dressed with specific places for each item of merchandise, and a casual glance will indicate which items need replenishing. Usually, the forward stocks of each item are standard quantities, based on their selling rate—in other words, a 5-day supply, or a 10-day supply, and so on. The method minimizes bookkeeping in the department, improves the store's appearance, and makes for greater efficiency in selling. Careful selection and arrangement will place related items next to each other in the forward areas, encouraging additional-item sales.

Color-coding

Another partial-visual control technique that can be used with excellent results is color-coding. Various colors are utilized in price tags or labels on every item of merchandise, and they designate the approximate time of purchase of each item. While many variations are possible, the one most frequently used is based on a different color price tag for each quarter of the year. Naturally, the type of tag makes little difference. Most price tags are available in different colors, and a retailer can continue to use his regular tags, simply changing color each quarter. Even in the simplest case, where pricing is done with a marking crayon directly on the merchandise, a different color crayon can be used for each quarter.

To use this system, the merchant selects five different colors. Five are chosen rather than four, so that in the event of a carryover for a full year, the year-old merchandise cannot be confused with the new merchandise.

Suppose the color red is selected for the first quarter of the year. All merchandise would then be priced on red tags or with a red crayon. When the second quarter arrives, a white label or crayon could be used. The difference in color of the labels is immediately recognized by the sales personnel, but few, if any, customers attach any significance to the change.

Once the system has been in operation for three quarters, you can tell at a glance which merchandise has been in stock for too long. The red label will indicate that the merchandise was purchased during the first quarter and, if it is a good item, should have been moved out a long time ago. The coding will help to simplify stock adjustment by revealing customer demand for certain items, and resistance to others. And the coding will assist in the preparation of merchandise for closeout.

The color code will also aid employees in becoming better salesmen. They can become more alert to slow-moving merchandise. When two identical items are in a bin or on a rack bearing labels of two different colors, employees can move the older merchandise first. If they spot two colors on similar lines of merchandise, they can inform the buyer, who can take steps to eliminate the slower-moving line.

Finally, adding color-coding to existing systems is so simple that it requires virtually no extra work. Price tags would have to be placed on merchandise anyway, even without the color coding.

Electronic Merchandise Control Systems

Electronic data processing, or EDP, is an outgrowth of modern technology and is being applied to more and more clerical functions in a wide variety of fields. One of the more recent applications of EDP is to report and clarify merchandise control information to aid store operators in better management of their businesses.

Merchants who have adopted electronic merchandise control have pointed to many advantages, such as timely reports, valuable style and vendor analysis, lower inventories because of better sales trend forecasting, better turnover of merchandise, and fewer clerical employees required for the reporting function.

Essentially, the Electronic Merchandise Control System consists of:

Adoption of a standardized system of classification
In-store preparation of input information for computer use
Central computer processing and report preparation
In-store analysis of computer-prepared reports

ADOPTION OF A STANDARDIZED SYSTEM OF CLASSIFICATION

Every electronic information sorting device—usually referred to as a computer—requires the development of its own language. Any information fed into the computer must be in this language. The translation of any input data into the computer's language is called programming. Once the basic program is developed, if input data can be kept within the program, a new program is not necessary.

Along these same lines then the store owners who desire to use a particular data processing center can adopt the same system of merchandise classification that the program is designed to accept. In this way, computer time can be re-

duced to a point that makes the cost of report preparation economically acceptable to the individual store.

In-store preparation of input information

To enable the electronic equipment to prepare usable reports, sales and stock information must be prepared in a form that is acceptable to the computer. This data can be prepared either at the point of sale or in the back office.

Point of sale recording of information is accomplished with specially modified cash registers which prepare a punched paper tape or other computer-acceptable record at the same time that the sale is being recorded. Back office recording of information is accomplished from sales slips, price tickets, or tally cards. Computer-acceptable records are obtained from specially modified adding machine punches, bookkeeping machines, or from separate tape-punch machines installed for this purpose.

Central computer processing and report preparation

To keep costs in line for smaller stores and make the system of electronic data processing economically feasible, various central computer centers have been created which accumulate and process the data for each store, and automatically print out individual reports according to the requirements of the store management. Such reports can be processed and on their way back to the store within 48 hours.

In-store analysis of computer-prepared reports

The accumulated data are returned to the store in the form of a series of standardized reports. With careful analysis the merchant can gain valuable information to guide his purchasing and evaluate the real performance of each classification of merchandise. Thus he can better combine the information of individual sales achievements into a comprehensive course of action for the performance of the entire store.

ESSENTIALS OF WORKABLE MERCHANDISE CONTROL SYSTEMS

Let's review the material we have covered thus far and make certain that we can develop a workable merchandise control system for any store. In fact, let's make a step-by-step listing of the essentials to be incorporated into a practical merchandise control system.

Step 1. Break down the store's merchandise into basic items or stock categories. The actual categories will depend on the type of store and the relative importance of each item in total store volume.

Step 2. Set up a control sheet for each category of merchandise.

Step 3. Set up sales periods, order periods, and review periods for each merchandise category. Depending upon the type of merchandise, some periods will be shorter or longer than others.

Step 4. For each merchandise category determine planned ending stock and desired working stock, and establish a procedure for open-to-buy calculations.

Step 5. Establish a procedure for accumulation and recording of sales data, and modification of stock-on-hand records.

Step 6. Prepare analysis records of all merchandising information obtained above.

Step 7. Analyze the accumulated information and apply it to the store's operation.

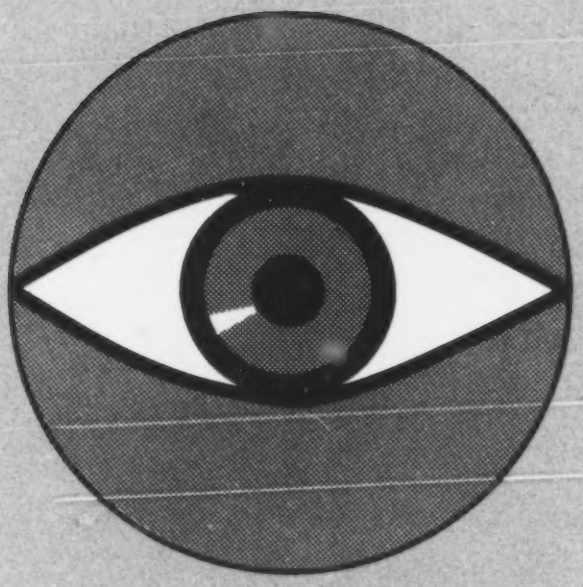
CONCLUSION

Using the methods discussed in this topic, effective merchandise control is feasible in a small store. A practical system of control is neither expensive to install nor burdensome to operate, yet it will guide the merchant toward more profitable management.

(*Show Visual #10*)

Visual No. 10

There is no doubt that it will take a certain amount of patience and determination to get a system into operation; but once it is working, you, the merchant, will not want to operate without it.



THE VISUAL AIDS

A What to Show

Section

The old Chinese proverb **"One See Worth Thousand Say"** is certainly borne out by experience in the fields of education and training at all levels.

The instructor who helps his participants visualize subject matter and ideas not only holds the group interest--he also stimulates thoughtful consideration and retention of the topic.

This section contains samples of visuals that are available for this subject. Each has been carefully coded and "keyed" into **The Lesson Plan** as outlined in this manual.

USE OF VISUAL AIDS

WHAT TO USE	WHEN AND HOW TO USE
Chalkboard	Study and plan before a meeting what to put on the board and where to put it. Use it to present sketches, diagrams, outlines, definitions, key words, directions, record of class contributions, and summaries. Suit material to board space. Write plainly and quickly. Keep wording simple. Stand at one side of board while referring to material. Talk to the group, not to the board. Erase material no longer needed.
Posters, Charts, and Diagrams	To arouse interest and attract attention; to show relationships and trends; to inspire group. Use device large enough to be seen. Post where everyone can see. Present at right time. Discuss information illustrated.
Hand-Out Materials	To present information uniform in character and as a guide to material covered; emphasize key points; arouse interest and discussion; review or summarize discussions; and serve as permanent reference. Select to serve a definite purpose. Introduce at right time. Distribute in manner to convey its importance. Direct members how to use.
Films and Film Strips	Present an overall view; introduce a new subject; emphasize specific aspects of a subject; arouse interest; summarize. Select carefully to relate to the discussion and plan presentation. Arrange room and equipment for showing. Alert the audience for the showing or what will be seen. Run the film. Discuss the subject matter and summarize.
Samples, Forms, and Exhibits	Keep subject matter practical; show development of a process; increase understanding. Select only enough to illustrate, not confuse. Pass around if necessary. Take time to present clearly. Comment when presenting.
Pedestal Chart	A pad of newsprint sheets or similar paper may be used for the same purposes as the chalkboard. Material recorded with chalk or crayon may be saved for future reference by the group or by the instructor.

SBA'S MANAGEMENT TRAINING FILM

"A Step in the Right Direction"

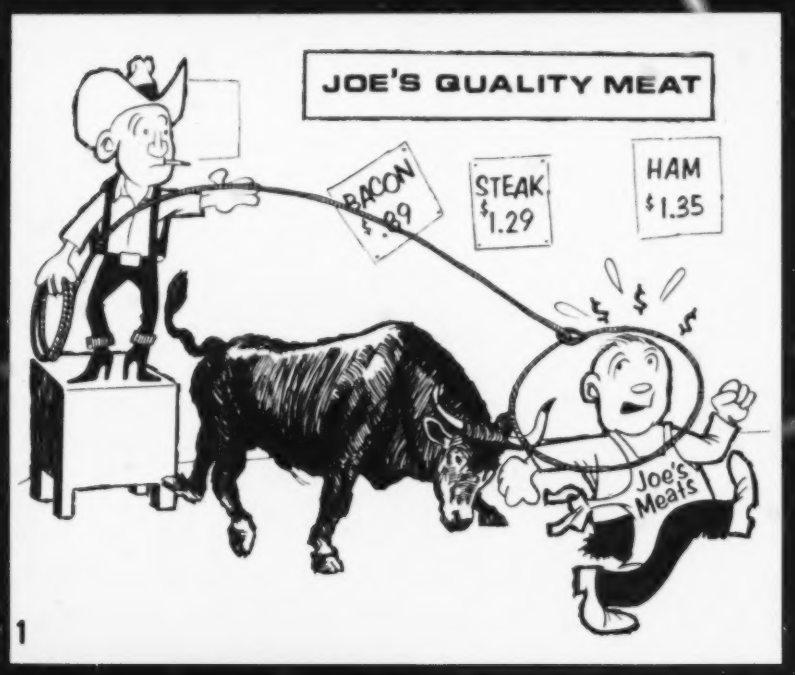
This film dramatizes the importance of merchandise control in retail stores and illustrates some effective control systems and techniques. Impact is achieved through discussions between two men's clothing store competitors and flash-backs to problems and accomplishments in developing successful control procedures.

The film is in natural color, 12 minutes 18 seconds long.

OVERHEAD TRANSPARENCIES

Facsimiles of 10 transparencies intended for use with this instructor's manual appear on the following 2 pages.

A set of the 11 by 11-inch transparencies in color as well as the film described above, may be provided on loan to SBA cosponsors of management training from the nearest office of the Small Business Administration, listed on the inside back cover of this manual.



1

2 CHECK OF GOODS ON HAND

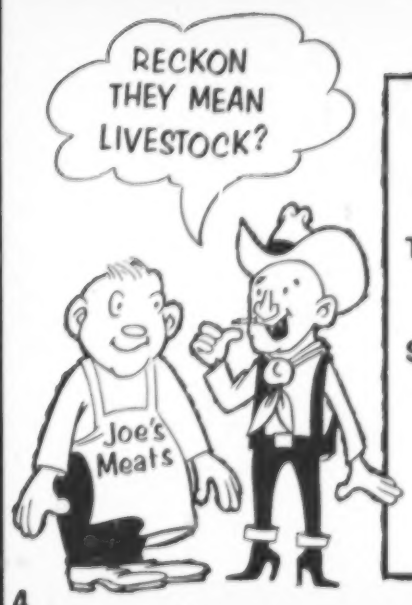
3

Unit Merchandise Planning and Budgeting

1 Planning Future Sales

2 Calculating Open-to-Buy

3 Establishing Style Number Control



4

Formula For Open-To-Buy

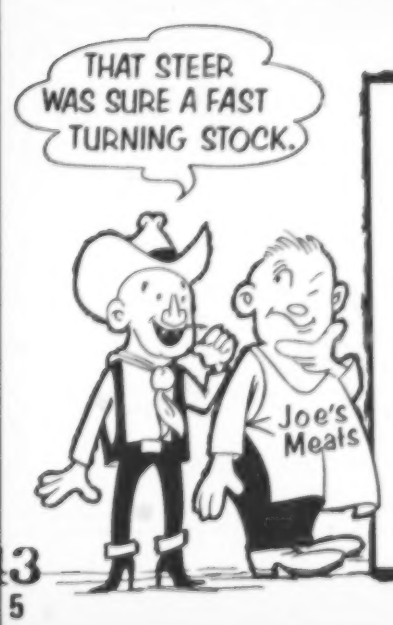
Total Quantity of Stock To Be Provided

MINUS

Stock-on-Hand plus Stock-on-Order

EQUALS

OPEN-TO-BUY



5

Merchandise Categories

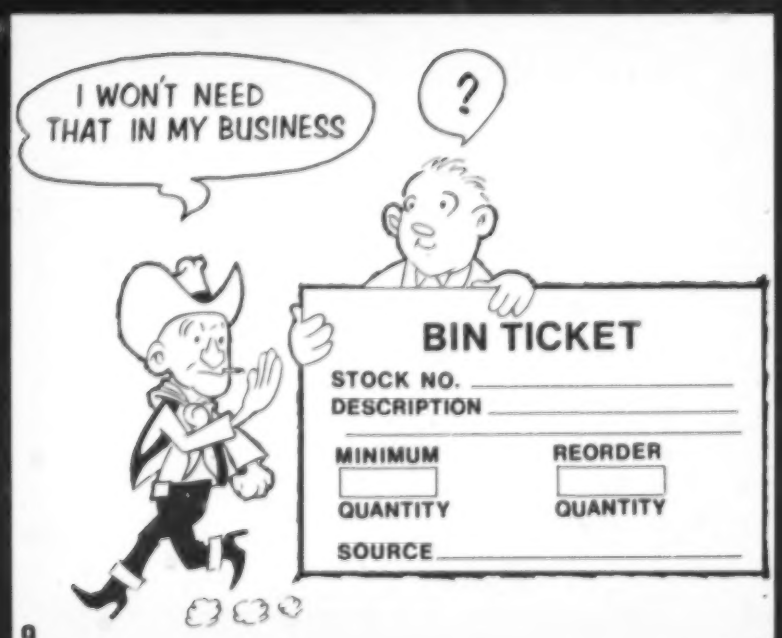
1. Maintained Reorder Items
2. Maintained Selection Stocks
3. Fast Turning Selection Stocks

I THINK I'LL SELL SOMETHING MORE STAPLE!
THAT GIVES ME AN ORIGINAL IDEA!
Staple and
Semi Staple Merchandise
6

WHY DON'T YOU SWITCH MERCHANDISE LINES TOO?
THAT'S MY ORIGINAL IDEA!
STYLE ITEMS
7

THAT SETTLES IT! I'M SWITCHING PRODUCTS.
8

HIGH FASHION MERCHANDISE


I WON'T NEED THAT IN MY BUSINESS
?
BIN TICKET
STOCK NO.
DESCRIPTION
MINIMUM QUANTITY
REORDER QUANTITY
SOURCE
9

FERTILIZER FOR SALE
10

THE SUPPLY DEPARTMENT

A Resource Materials and Participant Handout

Section

It is generally conceded that interest intensifies in situations where people have a chance "to participate" by such means as open discussion and buzz sessions. The materials in this section should prove useful in this kind of activity. These materials may be reproduced locally.

It is also desirable to provide participants with "take away" materials if they are pertinent and concise. Accordingly, appropriate Management Aids, Small Marketers Aids, and Management Research Summaries are included in this section. Current information on the availability of suggested and new SBA publications may be obtained from the nearest SBA office.

LIST OF HANDOUT MATERIAL

A. Focal Points—a leaflet on *Merchandise Control* (available in quantity from SBA)

B. Instructional Items (may be reproduced by cosponsor or instructor for distribution to each participant)

Item No.

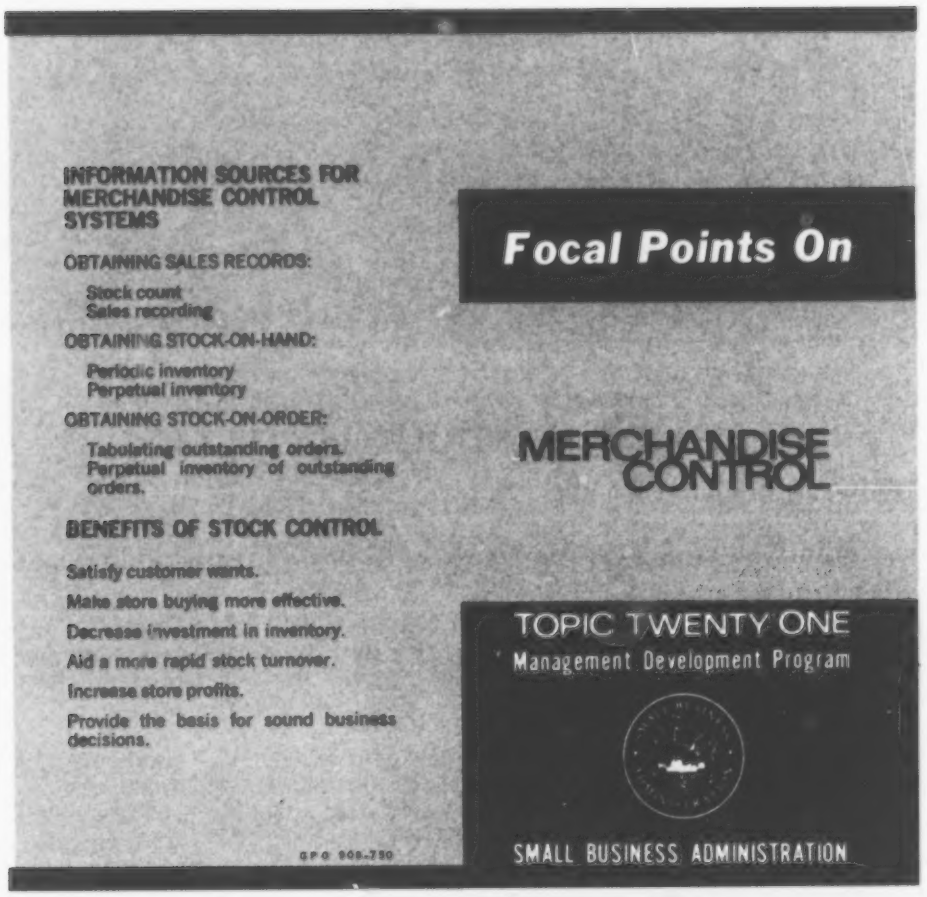
1. Rotated Unit Control Record
2. Seasonal Item Report Control Record
3. Style or Model Activity Record
4. Daily Sales and Stock Report
5. Classification and Price Weekly Control Record
6. Monthly Sales and Stock Plan Report

C. Selected SBA Publications (may be obtained for each participant from SBA, as long as available)

1. SMA No. 94, "Keeping Score with Effective Records"
2. SMA No. 122, "Controlling Inventory in Small Wholesale Firms"
3. SMA No. 123, "Stock Control for Small Stores"

Also see the Bibliography, which is intended primarily for use by the instructor, but may also be duplicated and used as a helpful handout item.

Front Side



Back Side

MERCHANDISE CONTROL GOALS

Aid assortments and unit sales planning.

Enable purchase planning by price line within classifications.

Simplify ordering of merchandise.

Assist in selecting items for sales promotions.

Expedite the liquidation of slow-moving items.

PRINCIPAL MERCHANDISE CATEGORIES

Maintained reorder items.

Maintained selection stocks.

Fast turning selection stocks.

MERCHANDISE CONTROL SYSTEMS

Rotated Merchandise Control System

Perpetual Merchandise Control

Visual and Partial Visual Systems

Electronic Merchandise Control Systems

ESSENTIALS OF WORKABLE MERCHANDISE CONTROL SYSTEMS

Break down merchandise into stock categories.

Set up control sheets for each category.

Establish sales periods, order periods and review periods for each category.

Establish open-to-buy procedure for each category.

Develop procedure for accumulation and recording of sales data.

Analyze merchandising information.

Apply information to store's operation.

THIS PAGE illustrates a one-fold leaflet which summarizes the subject presentation. This leaflet is available in quantity from the nearest Small Business Administration office for distribution to potential and actual participants in SBA-cosponsored management education and training sessions.

ROTATED UNIT CONTROL RECORD

ROTATED UNIT CONTROL					1	2	3	4	5	6	7	8	9	10	11	12	13	TOTAL
STYLE	size	min pack	cost															Quarterly
	min qty	del time	retail	date	2/2	2/16	2/30	3/13	3/27	4/11	4/25	5/8	5/22	6/5	6/19	7/3		sales
WHITE BUTTON DOWN COLLAR	15-36	4	28.50 DOZ.	on hand	24	23	22	22	20	19	20	17	17	15	16	16		this year
				on order														8
	12	1 WK.	3.95	rec'd														last year
				sales	1	1	0	2	1	-1	3	0	2	-1	0	0		9
	15½-30	4	28.50 DOZ.	on hand	39	32	28	28	25	24	26	30	27	28	29	25		this year
				on order						8								26
	24	1 WK.	3.95	rec'd							8							last year
				sales	7	4	0	3	1	-2	4	3	1	-1	4	2		31

SEASONAL ITEM REPORT CONTROL BOARD

SEASONAL ITEM REPORT	SELLING SEASON															
Classification	FEB		MARCH		APRIL		MAY		JUNE		JULY		AUG		seasonal summary	
PRICE	stock units	sold units	stock units	sold units	stock units	sold units	stock units	sold units	stock units	sold units	stock units	sold units	stock units	sold units	sold units	end stock

STYLE or MODEL ACTIVITY RECORD

UNIT CONTROL RECORD													SOURCE:										
RECEIVED			CLASSIFICATION NO.							STYLE		RETAIL							COST		ON ORDER	
date	no. units	to date	sales week begin	M	T	W	T	F	S	sales to date	units on hand	sales week begin	M	T	W	T	F	S	sales to date	units on hand	date	no. units
RECEIVED			CLASSIFICATION NO.							STYLE		RETAIL							COST		ON ORDER	

INSTRUCTIONAL ITEM NO. 3, TOPIC 21

DAILY SALES and STOCK REPORT

DEPARTMENT		CLASSIFICATION		DESCRIPTION
WEEK ENDING		WEEK ENDING		
PRICE		PRICE		
MON		MON		
TUE		TUE		
WED		WED		
THU		THU		
FRI		FRI		
SAT		SAT		
TOTAL		TOTAL		

DEPARTMENT					CLASSIFICATION					DESCRIPTION				
WEEK ENDING					WEEK ENDING					WEEK ENDING				
price	number units sold	units in stock	open to buy	on order	price	number units sold	units in stock	open to buy	on order	price	number units sold	units in stock	open to buy	on order

MONTHLY SALES and STOCK PLAN REPORT

DEPARTMENT: **CLASSIFICATION:**

SALES				STOCK				SALES				STOCK			
week ending	last year	this year planned	this year actual	last year	this year planned	this year actual	this year on order	week ending	last year	this year planned	this year actual	last year	this year planned	this year actual	this year on order
cumulative to date								cumulative to date							
cumulative to date								cumulative to date							

SMALL BUSINESS ADMINISTRATION

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Small Marketers Aids

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KEEPING SCORE WITH EFFECTIVE RECORDS

By William L. Raby

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SUMMARY

This Aid is designed for small marketers who may wish to check their records. To be effective, records should provide needed facts at the proper time, and they should be easy to handle. The kinds of records and how many depend on the nature of the particular business.

Records are effective when they tell you the score on your business and thus help you to keep out of trouble. Sometimes trouble comes because a small marketer lacks the records necessary to support statements made on tax forms. More often, though, trouble comes because the small marketer's recordkeeping does not give him the facts he needs for making sound decisions.

Records can take many forms and can help you in carrying on your management activities, such as, buying, selling, planning, and taxes. What kinds of records and how many depends on the nature of your operation. For example, the part-time marketer who sells hot dogs at the ballpark has little need for inventory records. He buys only enough merchandise--weiners and buns--for one game. Yet small retailers of piece goods, shoes, and other types of merchandise need some sort of stock control records because they cannot possibly keep such information by memory alone.

In this Aid, records are grouped according to their use. None of them will be applicable to all businesses. In fact, you may need only a few of them in your operation. This Aid is designed, then, only to call your attention to the one or two records which you may have overlooked but could use to great advantage. The last section--"Wasted Motion?"--lists questions which may be helpful in checking your recordkeeping methods. To be effective, records should do two things: (1) provide the needed facts on a timely basis and (2) lend themselves to efficient handling. These two objectives should set the form which your records take.

INVENTORY AND PURCHASING

(These records provide facts needed for buying and selling.)

Inventory Control Record--USE: Essential to making buying-and-selling decisions. Some firms control their stock by taking physical unit inventories frequently. Others use dollar inventory records which give a rough idea of what their inventory (based on gross profit margins) may be from day-to-day in terms of dollars. Firms with thousands of different items (drugstores, for example) find dollar inventory records easier to use than physical inventory control. Such records give them their total inventory in dollars.

Item Perpetual Inventory Record--USE: Provides a ready balance of stock on hand. Some firms selling big ticket items use an inventory card for each class of items. They post details of merchandise received and sold on it. They check the accuracy of the balance shown on the cards by making periodic spot checks of the number of units in the stockroom.

Model Stock Plan--USE: Provides a record of basic stock in sizes, colors, types, prices, and amounts. It is sometimes called the "never-out-list".

Out of Stock Sheet (sometimes called a "want" sheet)--USE: Notifies buyer that certain items need to be reordered. Items in low supply should be listed early enough to allow time for delivery before the stock is exhausted.

"Open-To-Buy" Record--USE: Helps you to prevent overstocking by adjusting purchases to sales. This record is a running account of the dollar amount that may be bought without jeopardizing the inventory position which you try to maintain.

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Purchase Order File--USE: Tells what has been ordered and its status (for example, in transit, expected in 15 days, and so on). Some firms keep this file by using a carbon copy of each purchase order on which they jot down the expected delivery dates, changes, and so on.

Open Purchase Order File--USE: Helps you to tell whether shipments are coming through on time. This file is particularly helpful for merchandising fashion items, replacement parts, and merchandise involving timing. Some merchants make up an extra copy of their purchase order and use it for this file.

Supplier File--USE: Provides a handy reference on your suppliers; helpful when negotiating with a supplier because you can quickly figure the annual amount of business you do with him. You can set up this file by using extra copies of your purchase orders and filing them by suppliers.

Returned Goods File--USE: Provides a record of merchandise returned to supplier by dates, amounts, and reasons. Helps to facilitate payments and control quality.

Price Change Book--USE: To record markdowns and markups by dates, amounts, and percentages.

SALES RECORDS

(They give you facts which you can use to determine sales trends.)

Record of Individual Sales Transactions--USE: Helps you to account for the outward flow of goods. You should have a sales slip or a cash register tape record for all merchandise leaving your store. Sales slips should be prenumbered and each number accounted for.

Summary of Daily Sales--USE: Helpful in figuring trends in sales (seasonal, weekly, and so on). This summary (by salespeople or types of merchandise) makes up the record of sales for accounting purposes.

Operating Plan--USE: Provides goals for your operation during a certain period of time--week, month, or season. You project what you plan to do during the coming period (before that period starts) in terms of sales (broken down into classes that are significant for your operation) and what expenses (fixed, controllable, and discretionary) will be. By these forecasts, you can estimate your financial position in terms of cash, receivables, inventory, and payables at the end of the period.

Operating Summary--USE: Provides a basis for determining whether your operating plan was successful. The operating summary compares what actually happened during the period with the goals you set up before the period started. The summary should include the same items as those in your operating plan.

Sales Promotion Plan--USE: To plan, coordinate, and control sales promotion activities, such as, advertising, display, and special events.

Accountability Records--USE: Shows how your firm is making or losing money. By subtracting the cost of sales (the cost of the items sold) from your sales for that month, you get your gross profit. From this gross, you subtract other expenses to get your net profit before taxes. By breaking your profit and loss statement down by departments or by significant types of merchandise, you can determine whether a department or a type of goods is paying its way in terms of space occupied, the work involved, and other costs. Some firms go a step further and make up a P&L statement on each salesperson. (For additional information see: "Responsibility Accounting Can Pay Dividends" in *Management Aids for Small Manufacturers Annual* No. 8. Small Business Administration, 1962. 35 cents. Superintendent of Documents, Washington, D.C. 20402.)

CASH RECORDS

(These records tell what is happening to your cash.)

Daily Cash Reconciliation--USE: Provides data (in summary form) for entry in cash receipts journal. These data are picked up from cash register tapes (or other sources of cash receipts information) and are reconciled according to the beginning-of-day and the end-of-day balance changes and bank deposits.

Cash Receipts Journal--USE: Lists all the cash coming into your business and its source. The amounts entered in this journal should be deposited intact in the bank. Never use cash receipts for paying small bills. Pay them by check or with money from your petty cash fund.

Bank Reconciliation--USE: Necessary for determining whether your firm's checkbook agrees with the bank's records. You or some trusted person who does not have access to your cash receipts or checks should get the monthly bank statement and prepare the reconciliation. The reconciled bank balance should be checked with both your bank book and with your general ledger account for cash in bank.

CREDIT

(Credit records help you to keep track of who owes you and whether they are paying up on schedule.)

Charge Account Applications--USE: Helps you to decide whether to extend credit to a customer. This form shows the customer's place of employment, his bank, and other pertinent information. It should also indicate his credit limit.

Accounts Receivable Aging List--USE: Shows length of time that customers are delinquent and helps you to tell which ones may become bad debts. This sheet lists in one column the receivables dating from the past month to the current month and shows the total balance for each customer. The portions of the

total which are from the previous month, the month before that, and so on are shown in appropriate columns. These are your potential bad debts.

EMPLOYEES

(Some small business owners find that certain kinds of personnel records are helpful in the efficient management of their personnel.)

Record of employee earnings and amounts withheld (by months, quarters, and for each year)--USE: Essential in preparing payroll tax returns and furnishing employees with required Forms W-2 (Withholding Tax Statement) and corresponding State forms. This record should also show the amounts withheld for Social Security.

Employee's Withholding Exemption Certificate (Form W-4)--USE: Supporting record for the withholding exemptions taken by your employees. The law requires employees to file new exemption certificates once a year, if there has been a change in their exemption status.

Record of Hours Worked (each day by each nonexecutive employee)--USE: To prove your compliance with the law on minimum wages and overtime. Also useful in keeping track of absences caused by illness, vacation time, tardiness, and payroll costs.

Record of Expense Allowances (and reimbursements paid yourself and employees who incur expenses in connection with their jobs)--USE: To help in budgeting and controlling personnel expense allowance and to support income tax deductions.

Employment Applications--USE: To provide a permanent record on each applicant that was hired. They can be used also to prove good faith when employment of under-age persons is alleged.

Record of Changes in Rate of Pay--USE: To show the nature of the change, authorization, and reason.

Record of Reasons for Termination of Employment--USE: For contesting unwarranted claims for unemployment compensation; and for answering personal reference checks by future employers. Some firms include this record on the employment application form which they file as "inactive" when the person is no longer employed.

Record of Employee Benefits--USE: For reviewing what you spend for benefits for each employee, such as group hospitalization, life insurance, retirement, paid holidays, paid vacations, and so on.

Job Descriptions (for each job)--USE: Provide a list of the qualifications you need in an employee; are useful in training new employees; and can help to prevent confusion by spelling out what is done by whom.

Crucial Incidents Record (for each employee)--USE: Helpful in reviewing an employee's progress or when considering pay changes or promotions because this record describes briefly the unusual (good or bad) things which the employee has done at his job.

FIXTURES AND PROPERTY

(One of these records helps you to keep the facts needed for taking your depreciation allowances. The other is useful in keeping track of insurance coverage and claims.)

Equipment Record--USE: Essential for preparing income tax returns, if you wish to take advantage of depreciation deductions. It shows the nature of each piece of equipment, the date you acquired it, its cost, estimated life, and method of depreciation.

Insurance Register--USE: Helpful when filing claims for losses and when reviewing (annually) insurance coverage with a qualified insurance adviser. This register shows policy numbers, companies, kind and amount of coverage, expiration dates, and premiums.

BOOKKEEPING

(The kind of bookkeeping system you use depends on your situation. The records described below assume the use of a double entry system.)

General Journal--USE: Facilitates posting to control accounts, provides a catch-all for small daily transactions, and is essential to record closing entries when balancing accounts.

General Ledger--USE: Provides information by containing account sheets for the various asset, liability, ownership, expense, and revenue accounts. This ledger should be cross-referenced to their sources in the journal or journals (See descriptions below).

Accounts Receivable Ledger Sheet--USE: Helpful in reviewing the status of accounts because it shows how much credit was extended and how payments are being made. It facilitates the "aging" (scheduling your collection followup) of accounts.

Cash Disbursement Journal--USE: Necessary for controlling the outward flow of your cash. In this journal, you record all checks issued and their purpose. You handle your petty cash disbursements by writing a check to reimburse the petty cash fund for the exact amount that has been spent.

WASTED MOTION?

So far you have been checking kinds of records--ones which will provide the type of facts necessary to showing you the score on your business. This is one part of effective recordkeeping. Another part is the efficient handling of the records you decide to keep.

The following questions are designed to help you check your methods for handling records.

Your goal should be to record facts as easily and quickly as possible. As you study these questions, they may suggest others which could be helpful in finding and eliminating any wasted motion that might have crept into your recordkeeping.

In preparing monthly statements to send to customers, do you use antiquated methods, such as copying from a ledger card? Some stores save time and work by preparing such statements and ledger cards at the same time, one being a carbon copy of the other. Other stores attach copies of sales tickets to the statement which shows only the total charges for the month and the customer's balance.

Are you handling payroll data more than once? Do you, for example, record payroll data in a payroll journal, then write it on a payroll check stub, and finally write it again on an individual employee record? The use of an inexpensive one-write system will enable you to handle the payroll journal, check stub, and employee ledger in one operation.

Do you maintain unnecessary ledger records of your accounts payable? Many small marketers have found that a file of unpaid bills works as well, and requires less clerical effort. Check with your accountant on the advantages of the voucher system for handling payables.

Are you missing the boat in the use of punched paper (cash register) tape for use in sales and other analyses? Punched tape attachments for cash registers and adding machines are helping to bring electronic recordkeeping within the reach of small marketers. This tape which is a byproduct of regular operations can be processed at an information processing center. (For additional information, see: "Electronic Recordkeeping for Small Marketers in *Small Marketers Aids: Annual* No. 8. Available for 35 cents from Superintendent of Documents, Washington, D.C. 20402. Your accountant can explain how you might use these devices to make your records more useful.

Are old records cluttering up your storage space? Not all records need to be saved forever. Work out a record retention program with the help of your accountant and your attorney, and then destroy records in accordance with that program. You may want to check out the possibilities of putting some records--ones which the law requires--on microfilm. (For additional information see "Records Management in Smaller Stores" in *Small Marketers Aids: Annual* No. 1. Small Business Administration. 1959, 45 cents. Superintendent of Documents, Washington, D.C. 20402.)

SMALL BUSINESS ADMINISTRATION

U. S. Government Agency

Controlling

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CONTROLLING INVENTORY IN SMALL WHOLESALE FIRMS

By **Robert L. VanDeMark**
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SUMMARY

The small wholesaler needs a simple inventory control system which will help him serve customers and control costs. He can achieve effective control by classifying his inventory by value and by the nature of his business--perishable stock, staple stock, seasonal stock, or a combination.

This Aid suggests ways for providing adequate customer service while keeping the inventory investment to a minimum. Samples of simple inventory control records are also included.

Proper control of inventory enables the small wholesaler to provide maximum customer service at the lowest possible cost. Your customers expect you to have exactly what they ask for when they place orders with your salesmen. Moreover, in fill-in situations, when a customer walks in, telephones or mails in an order, he wants specific items in specific quantities--and he wants them "right now."

To meet the needs of customers, your goal should be to buy and maintain complete inventories at the lowest possible cost. When you reach that goal, you will find that you have a lean inventory with a high turnover--a by-product of sound inventory management.

In using your inventory as an instrument of profit, you should keep in mind that the purchase price is not the only cost of inventory. You have fixed inventory costs, such as the cost of purchasing, the cost of keeping inventory records, the cost of receiving materials. You also have variable inventory costs, such as the cost of stock handling up to the point of shipping a customer's order (shipping is a sales expense), the cost of the money tied up in your inventory, the taxes and insurance fees that you pay on the value of your inventory, and any material value that is lost due to spoilage, scrap, or age.

WHAT KIND OF CONTROL?

Inventory in a small wholesale firm must be controlled item by item because customers ask for specific items in specific quantities. Your control must be concerned with the movement--on, to, and off your floor--of each item you stock. It requires a knack for matching control to customers' demands.

In addition to using an item-by-item control, the method should be the proper one for your type of wholesaling--staples, perishables, seasonals, or a combination.

If you haven't already done so, determine the nature of your inventory. A staple wholesaler handles items--such as plumbing supplies, hardware, and office supplies--which do not usually deteriorate with time and the elements. The wholesaler of perishables handles items--such as fruits, vegetables, and other foods--which must be sold within a relatively short time or spoilage will destroy their saleability. A seasonal wholesaler handles items--such as heating and cooling equipment, soft goods, and sporting equipment--which move according to changes in the seasons or the whims of customers.

If your own merchandise line is made up primarily of staples, your control must be tailored, of course, to staples. On the other hand, if your lines are mixed--some staples, some perishables and some seasonal--your inventory control should be a "combination" which will handle all three kinds of items.

CLASSIFY YOUR INVENTORY

One of the prime characteristics of all inventories is that a small percentage of the inventory items usually accounts for the bulk

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of the firm's total sales. These items are called high usage-value items because they require the bulk of the firm's inventory dollars.

There are also medium usage-value items and low usage-value items. The latter items account for a tiny portion of a sales volume.

The actual figures vary according to the kind of business, but an example of high, medium, and low usage items is provided by the inventory and sales of one wholesaler. He carries 10,000 items and does $2 million in annual sales. His usage of items is as follows:

Percent of Total Sales	Items	Percent of Total Inventory
72	1,000	10
16	1,500	15
12	7,500	75

If you haven't already done it, your inventory should be classified into three groups: high dollar usage items, medium dollar usage, and low dollar usage. The working tool should be a classification card such as the sample one on this page.

In using the card, you estimate the annual usage based on your experience with the item. On the sample card, for example, the owner-manager estimated that he sells 100 #67B desk lamps per year. His most recent cost figure for 1 lamp is $3.75. He arrived at the annual dollar usage-value--$375--of this item by multiplication: the unit cost x annual usage ($3.75 x 100).

After you have cards for all items, put them in a file box according to dollar usage. Put those with the highest dollar usage-value in front as though you were counting from 100 down to 1.

Now, you are ready to divide your inventory according to dollar-usage. Start from the high usage-value end of the stack and measure off 15 percent of the length of the stack. Pull up a card for an indicator. From that indicator card measure off another 20 percent of the length of the stack. The remainder of the stack is, of course, 65 percent.

The first segment (15 percent) of the cards represents items which account for the bulk of your annual sales volume. The next segment (20 percent) is your medium usage-value items. The remainder of the stack (65 percent)

CLASSIFICATION CARD

ITEM: #67B Desk Lamp		
Annual Usage	Unit Cost	Dollar Usage-Value
100	$3.75	$375

represents items which add little to your sales volume but a lot to your inventory costs.

INVENTORY RECORDS

When you examine the three segments closely, your percentages may vary from those you've just read about. For example, your high usage-value items might make up 10 or 12 percent instead of 15 percent of total inventory. The point to keep in mind is that your classification cards provide the key to the kind of records to keep on your inventory.

Because only 10 or 12 or 15 percent of the items account for the bulk of your sales volume, these items need close controls. You should use perpetual inventory records on them.

You can control the 65 percent or so of your items that account for only a small portion of your sales by using a physical control. A bin reserve control will do the job.

• Perpetual Inventory Record

For high dollar usage-value items, the small wholesaler needs only a simple receipt-withdrawal-balance type of record. A more complex record usually doesn't offer enough additional benefits to justify the expense. When you use perpetual inventory records--such as the sample shown in the right column, your employee in charge of inventory can post your receipts, your withdrawals, and your balance on hand. If you have many withdrawals each day, you can group them and make a single daily posting.

Prompt posting gives you up-to-date inventory balances, which you can use for reordering. Thus, you avoid inventory shortages and customer dissatisfaction.

You may want to investigate the possibility of using electronic records to expedite the up-dating of inventory balances. The tapes or cards can be processed by a computer service center.

• Bin Reserve

Bin reserve provides a way to control your low usage-value items. It means keeping a physical supply of an item as the "replenishment trigger" instead of maintaining a record on the item.

Bin reserve works as follows:

(1) You establish your "replenishment trigger" amount--your order point quantity, for example, 1 gross, 15 cases, 25 bags, and so on--for the item.

(2) Isolate that order point quantity from the rest of the stock of that item. For small items, you can use a box, a bag, or a bin. Attach a bin reserve tag to the isolated stock.

(3) When the regular supply is gone, you begin to fill orders from the reserve box, bag, or bin. Once you start using the reserve, the tag is removed from the bin.

(4) Use the tag as a "trigger" to place an order for more of the item. The amount in the reserve will be just enough to take care of your sales until the new stock arrives.

(5) When you receive the new stock, set up a new bin reserve and repeat the cycle.

A sample bin reserve tag is shown on page 4 of this Aid.

• Keeping Track of Perishables

If you are a wholesaler of perishables the flow of your items may be so fast that it's almost impossible to keep records. You have to maintain a completely physical control. The fact that your sources (usually on a short lead time) deliver the same goods

PERPETUAL INVENTORY RECORD

Part No. 3659 P or (M) Unit Cost 1.31 PERPETUAL RECORD "A"
Description Bracket
Material CRS Monthly Usage 100
Lead Time 1.25 Lot-Size 400
Set-Up Cost 14.00 Order Point 160

L	Date	Order No.	Received	Withdrawn	Bal. on Hand	
1	1-1	Inv.			340	
2	6	651A		50	290	
3	2-3	829		120	170	PO
4	16	785		30	140	
5	3-1	903		10	130	
6	3	919		60	70	
7	18	856		40	30	
8	29	R-647-P	200		230	
9	4-11	942-1		50	180	
10	15	R-647-F	205		385	
11	26	942-2		50	335	
12	5-9	1006		95	240	
13						
14						
15						
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at frequent intervals--every few days, once a week--helps.

Your control problem is receiving on each delivery the amount necessary to support your customer demand without over-buying and losing through spoilage. To do this, you use a visual control based on the flow of material through your warehouse.

This visual control method consists of physical levels which you establish for each item right on your warehouse floor. On the walls or on the shelves paint lines indicating the levels below which and above which you do not want the inventory to go. Then instruct your people to see that each day's deliveries keep the material within these painted bounds. To insure freshness, first-in stocks should move out first.

If you have shifting customer demands--such as seasonal demand--you can use stickers instead of paint. Thus you can alter the positions of the stickers as demand changes.

WHEN TO ORDER

In setting up an inventory control system--either perpetual or bin reserve--you have to answer two questions:

When should this item be reordered?

How much should be ordered?

The answer to "When to order?" will provide the better customer service you try to maintain. The answer to "How much to order?" will help you achieve lower costs.

You answer "When to order?" by determining: (1) how long it takes to get the item from the factory, the farmer or other processor and (2) how much of it you will use while awaiting delivery. Because both the delivery time and the customer demand can vary, you must add a safety allowance.

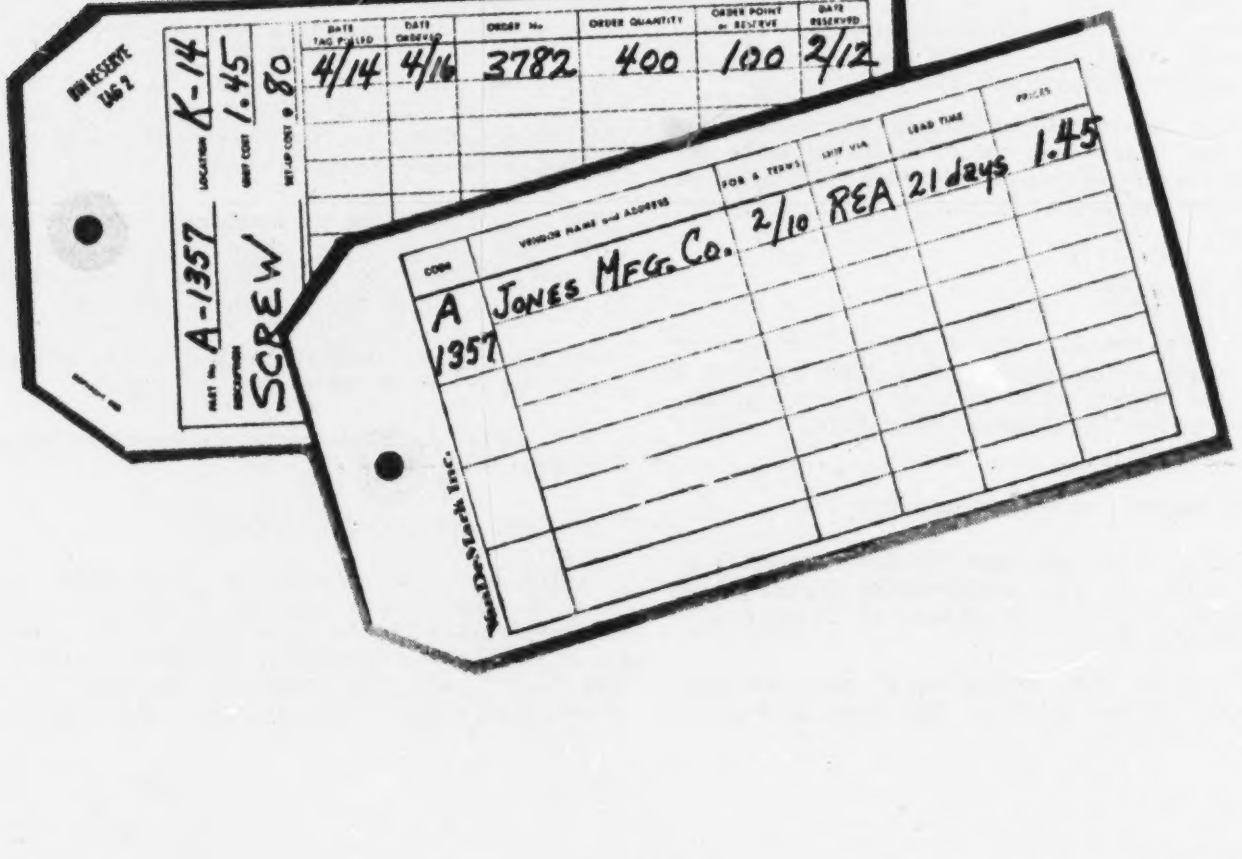
You should set an "order point" for each item in your inventory. When the item on hand equals or goes below the order point figure, you order more.

Moreover, the order point figure must be listed on your perpetual records for high-usage-value items. Then each time a withdrawal is posted to the record, the new balance should be compared to the order point figure to see if it is time to reorder.

On bin reserve items, you should put the order point figure on the bin reserve tag. Thus it is a reminder of how much to put in the reserve box or bag when you receive new stock.

On seasonable items you will need more than one order point. Items that are used mainly

BIN RESERVE TAGS



during one season and sparingly the rest of the year require at least two order points--one for the heavy inventory and one for the light inventory.

Reviewing last season's usage and setting order points ahead of time helps to keep them current. They should not be lower than your needs in the period of rising sales or higher than your needs in the period of falling sales.

HOW MUCH TO ORDER

Your goal in buying should be to buy in the most economical quantities. Thus, you keep down your volume of purchase orders, your material handling, and your costs of buying--such as unit taxes and insurance.

In answering the question "How much to order?" you have to consider three buying possibilities. They are: single price buying, multiple price buying, and line buying.

Single price buying is used when a manufacturer says you can buy an item by itself in any quantity at one price only.

Multiple price buying is when you buy one item by itself but obtain quantity discounts for larger purchases.

Line buying is when the manufacturer says you may buy a group of items, any item in any quantity, but with quantity discounts as you purchase in larger total quantities--one or more truckloads, for example.

- Single Price

The best known formula for determining the economic order quantity when buying at a single price is: Economic Order Quantity =

$$\sqrt{\frac{24 \times \text{Purchasing Set-Up Cost} \times \text{Monthly Usage}}{\text{K Factor} \times \text{Unit Cost}}}$$

In using this formula, you can easily compute the purchasing set-up cost, and it is used on all orders. Your figure will probably range from $3 to $10.

You get it by dividing the number of purchase orders released during a month into the amount it cost you to issue purchasing orders and keep inventory records during that month. (Perhaps you will not be able to get accurate paper costs, but you should be able to get a good estimate of labor costs.) For example, if that cost last month was $350, and you issued 70 purchase orders during the month, your cost for placing 1 order would be $5 ($350 ÷ 70).

You can get the monthly usage figure from your classification cards or bin reserve tags. Divide 12 into the annual usage figure.

BUYING A TRUCKLOAD
(An example)

In this example, when buying less than a truckload of water heaters, the wholesaler orders as follows: 10 units at $40 each. He pays a freight charge of $3 on each heater.

If he buys a truckload of water heaters, he orders: 80 units at an average cost of $40 each. There is no freight extra charge.

To determine whether to buy 10 units or a truckload the wholesaler uses the Quantity Discount (or Economic Order Quantity) formula. The formula gives him a monthly usage figure which represents the total usage required to justify the investment in a truckload purchase.

His Minimum Monthly Usage (MMU) works out at follows:

$$\text{MMU} = \frac{(K + S) \times \text{Added Order Cost}}{24 \times \text{Unit Cost Saving}}$$

$$\text{MMU} = \frac{(.17 + .10) \times (80 \times 40 - 10 \times 40)}{24 \times 3}$$

$$\text{MMU} = \frac{.27 \times (3200 - 400)}{72} = \frac{.27 \times 2800}{72}$$

MMU = 10.5 or 11 units per month

The wholesaler has to use at least 11 units per month of the 80 water heaters in the truck load in order to justify the truckload purchase.

In the formula, the "K" Factor is a fixed percentage which is based on your inventory costs (obsolescence, interest, taxes, insurance and handling). An average figure for the "K" factor is 20 or 25 percent. You can use the average until you work out your own "K."

The unit cost, of course, is the price you pay your supplier for the item.

- Multiple Price

When quantity discounts are offered, the formula for determining the economic order quantity is:

$$\text{Minimum Monthly Usage} = \frac{(K + S) \text{ Added Order Cost}}{24 \times \text{Unit Cost Saving}}$$

The "K" was discussed above. The "S" is an additional 10 percent safety allowance. The Added Order Cost is the amount of additional money you will need to invest when you order the larger quantity and take the quantity discount. The Unit Cost Saving is the amount you

are going to save per piece when you buy the larger quantity.

Use of the minimum monthly usage formula is shown in the box "BUYING A TRUCKLOAD" on page 5 of this Aid.

The Minimum Monthly Usage is that usage required to justify buying in the larger quantity. Compare the Minimum Monthly Usage to your actual usage. When your actual usage is higher, buy the discount quantity. A lower actual usage does not justify tying up your money.

• Line Buying

When an order point is reached on any one item in the line, you should check to see if the line buy--and the quantity discounts--should be taken. You calculate the minimum monthly usage which the line as a whole has to achieve in order to justify line buying. No saving is made when a wholesaler overstocks in order to take a quantity discount. Moreover, the money which he put into the excess stock might be used to buy items with a faster turnover.

If your current usage total from the items at--or near their order points--is greater than the minimum monthly usage for the line, you can make a line buy. If not, you must purchase only the item which has reached its order point (regardless of cost).

POLICING YOUR OPERATIONS

Inventory controls will be only as effective as the owner-manager makes them. They won't automatically keep inventory at the proper level. Records cannot overcome, for example, poor buying judgment that results in over or under stocking. Nor can they replace the need for follow-through by the owner-manager.

To make sure that your system is working as it should, it is a good idea to inspect the warehouse periodically. Look for conditions that encourage shortages or excesses. Some of them are poor housekeeping, poor warehouse layout, no location records or layout, and/or unauthorized people in your storage area.

Physical conditions should not hamper your people on the floor in using the order point and an order quantity for each item in your inventory. When physical conditions do curtail shipments, you will not be providing customer satisfaction at a lower cost.

FOR FURTHER INFORMATION

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SMALL MARKETERS AIDS

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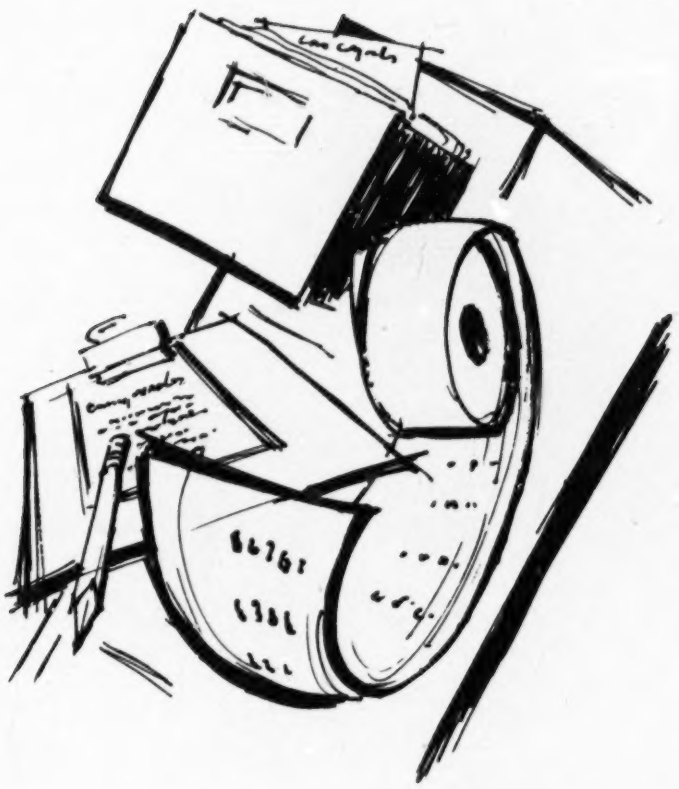
STOCK CONTROL



Maintaining effective control over stock is important in all kinds and sizes of retail operations, but it can be critical in a small one. At best, the owner-manager of a small retail store flirts with loss when he lets his stock become unbalanced.

The type of merchandise you handle will largely determine the kind and amount of paperwork needed for effective stock control. For example, control of perishables—such as in a delicatessen—requires no paperwork. Stocks are controlled visually. Many deliveries—such as milk and bread—are daily, and others are frequent. In addition, the suppliers' routemen have a self-interest in helping keep stocks fresh.

But even so, the owner-manager may need some sort of reminder—perhaps a note on his calendar—so he can make periodic checks. The important thing is to watch for changing customer demands requiring changes in your purchases.

The situation is different, though, with parts inventory in a service operation and with sizes and styles in an apparel store. For example, the owner-manager of a shop that specializes in motor tuneup and speedometer repair work may keep track of some of the parts he uses every day with little effort. But what about those he uses only once a month? Some sort of record is necessary if the right parts are to be on hand when he needs them.

In shoes, ladies ready-to-wear, and other soft goods stores, style, color, and sizes complicate the problem of stock control. A great deal of paper work may be necessary in order to serve customers properly and to prevent over or underbuying.

Stock control is necessary if the small retailer is to offer his customers a balanced assortment. A system need not be elaborate. It should enable the small retailer to determine what needs to be ordered on the basis of: (1) what is on hand, (2) what is on order, and (3) what has been sold.

SUMMARY

The kind and amount of paperwork necessary for effective stock control depends largely on the type of merchandise. This *Aid* emphasizes unit control rather than control by merchandise classification. Unit control provides information about: breadth of assortment, depth of assortment, number of brands stocked, and quality of line stocked.

The author, Edwin L. Harling, is research director, Rich's, Inc., Atlanta, Ga.

THE BASIC PICTURE

The owner-manager of almost any small store can sketch the basic picture of stock control. It involves four facts: (1) what you have on hand, (2) what you have on order, (3) what you have sold, and (4) what you need to order.

But whether these facts are used to achieve effective control is another story. A memory lapse on any of them can mean being out of stock or overstocked on an item, a style, a color, or a size.

WHAT KIND OF RECORDS?

Stock control records help prevent memory lapses. They eliminate the need for carrying details—especially on styles, colors, and sizes—in one's head, a trying task. They provide a container into which the owner-manager can deposit details.

The kinds and number of control records which an owner-manager uses depend on the amount of details that are needed. Stock control system may be achieved either by counting stock or by counting sales. Either way, a model stock list is required.

THE MODEL STOCK LIST

A model stock list is the first step in setting up a replenishment system for merchandise that involves styles, colors, and sizes. You prepare a list of all the items you want to control.

The list should include "model stock" quantities. These quantities are the amounts needed in order to maintain an "in stock" position for a certain period—usually a number of weeks.

You can use a simple formula to determine the period of time to be covered by the model quantity. It is: Reorder Period + Delivery Period = Number of Weeks.

Suppose that you order shirts every 6 weeks and delivery from the vendor takes 2 weeks, your number of weeks to be covered would be 8 (reorder period of 6 weeks + delivery period of 2 weeks = 8 weeks). Suppose further that you sell an average of 10 shirts a week. In this example, you would need 80 (10 × 8 weeks) to maintain an in stock on shirts.

When size is a factor, as in shirts, the necessary size run should be noted on the model stock list. You know from experience which sizes of an item are best sellers, which are medium sellers, and which are low sellers. Best selling colors can also be noted.

Some model stock lists—women's clothing, for example—include a special section. This section is called *maintained selection items*. Its purpose is to flag items that change with the fashion.

The term, "maintained selection items," implies groups of items which can be substituted for each other. Girl's blouses provide an example. When they reach the reorder point, you may need to order a new style to replace the old style. Sometimes, this means ordering from a different supplier because the old one does not yet have the new style. Examples of other *selection* item groups are infants' wear, and children's wearing apparel.

Merchandise of the *selection* type should be listed on the reorder records in groups by classification, item, and price. Such a listing will insure stocking a given price line at all times with proper merchandise. At the same time, it provides a record of the sales activity on the individual style.

COUNTING STOCKS OR SALES?

Counting is the basis for getting the information necessary to effective control. You can count stock on a periodic basis or you can count it daily by counting sales.

Which is best for your situation depends on the kind of merchandise you carry and the amount of work involved for you and your salespeople. Your goal should be to use a method which will provide up-to-date information at the most economical cost.

IF YOU COUNT STOCK

Your situation may lend itself to counting the stock on a periodic basis. If so, you would use what is called "the rotated method" and record the information on cards.

In the rotated method of stock control, you use *rotated unit control cards.* The format varies according to the kind of merchandise, but the kind of information is the same. With such a card, you keep track of an item, such as shoes by listing: (1) what is on hand, (2) what is ordered, (3) what has been received, and (4) what has been sold. Once every 2 weeks, the stock is counted to determine how well an item sold is selling.

If sales are dragging, you may decide to close out the item. If sales are normal, you would order the normal fill-ins. On the other hand, the stock count and other information on the card may reveal that sales are greater than activity on the sales floor has indicated. If so, your decision may be to increase the filling order and plan to promote the item.

The principle behind the rotated method is: Old Inventory + Purchases — New Inventory = Sales. In this formula, you can substitute the word "disappearance" for the word "sales." Disappearance represents shoplifting, inaccuracies in counting inventory, and sales.

IF YOU COUNT SALES

The other method for controlling stock is the perpetual method. In it, stocks are calculated from the store's recorded sales.

If you use this method, you have to keep track of sales when they are made, on an item basis. Its usefulness depends on whether the device you use captures the information with a minimum of effort and chance for error. The owner-manager with a fairly large sales volume (some experts say $200,000 annually) should check the possibility of using a computer service center to count sales and create up-to-date stock records. Such data processing may be more economical than maintaining the records manually.

Even when electronic data processing is not used, cash register tape may be such a device for capturing the needed information. If a sales count is needed on only a few items, you could check the possibility of using your register to get the information. For example, "Key A" might stand for one item number, "B" for another, and so on.

Sales slips provide another device for recording the item sales. Still another is the price ticket which can be detached when the item is sold.

Whether the information comes from register tape, sales slips, or price tickets, it has to be related to your stocks, specifically to particular classes of merchandise. A drug store, for example, needs sales information on prescriptions, proprietaries, fountain, sundries, tobacco, confections, magazines, and toiletries. The best way is to summarize the information and post it daily to your stock records.

These up-to-date stock records provide the information you need for ordering fill-ins. You review them on a periodic basis—once every 2 weeks, for example—and reorder as needed. One disadvantage is that errors can creep into the posting of the daily sales. However, adjustments can be made through a physical count of stocks every so often.

If you have only one or two items that need unit control, you might want to work with price tickets. At the time of the sale, detach the ticket and file it for later posting on your record. The balance on hand after the posting will determine what you need to reorder.

The principle behind the perpetual method is: Old Inventory + Purchases — Sales = New Inventory.

PREVENTING EXCESS STOCKS

In a small store, preventing excess stock serves two purposes. One is the maintenance of a balanced assortment which allows the store to serve customers. The other is the assurance that an excessive amount of working capital is not tied up in merchandise.

Open-to-buy is the key to keeping stocks in line. Open-to-buy is the amount of merchandise (in units or dollars) that you need to receive into stock during a certain period. This *Aid* discusses it in terms of units.

The period may be the selling season that is customary for a certain line of merchandise. Or it may be a time-span that is set by the owner-manager to fit his particular situation.

At the start of the period, a merchandise classification—such as blouses—is open to receive the number of blouses that is necessary to achieve the sales you expect to have in that period. Suppose, for example, that you expect to sell 200 blouses. To start the season, you buy and receive 160 blouses. Thus you are open to buy an additional 40 blouses.

The 40 is your control figure when you order fill-in stock. As long as you buy no more than 40 during the season, your investment in inventory for blouses will be no greater than you had planned.

But what happens if customers make a run on the blouses? If sales activity is tremendous early in the season and you can get a new stock within the next several weeks, the question is a merchandising one. How hot is the hot item? Hot enough to repeat the landslide activity? Repeat it halfway? Or is it a freak situation that will have cooled off before new stocks can be received and promoted?

After you have decided how heavily to restock the item, you set a new open-to-buy figure. Living within it keeps your inventory investment within your plans and prevents an excessive stock which might have to be marked down at the end of the season.

A side benefit from stock control records is that they are helpful in delegating work. They provide concrete tools which you can use in training an employee to care for details, such as counting stock.

FOR FURTHER INFORMATION

Readers interested in exploring further the subject of retail stock control may wish to consult the references indicated below. This list is necessarily brief and selective. However, no slight is intended toward authors whose works are not mentioned.

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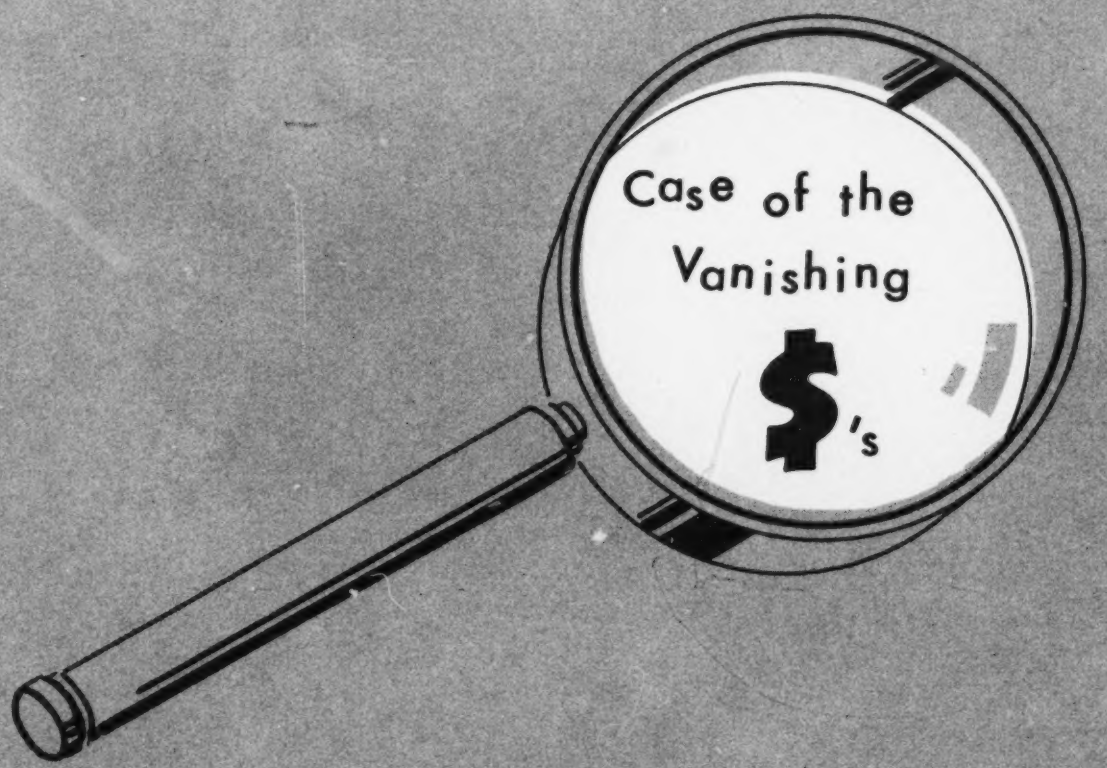


CASES IN POINT

Case Studies for Depth Penetration

Section

The case method has proven stimulative and effective in many administrative management courses. The following case material is suggested as a means of encouraging discussion.

It is suggested that one full session be devoted to the presentation of the topic as outlined in this manual. A case can sometimes be used to stimulate or augment the discussion period that follows the presentation. This could be one way of expanding the basic materials into an advanced course on the subject.

THE CASE METHOD OF STUDY

The case method is a teaching device that helps the student learn through the processes of reasoning and decision making. Other popular teaching techniques stress learning or memorizing other people's knowledge on a given subject. The case method stresses thinking abilities rather than memory; it is dynamic, not passive.

What is a case? It is a description of an actual or true-to-life business situation. It is a statement of facts, opinions, judgments—in short, a problem having no pat answer but lending itself to discussion and analysis.

The case method is particularly helpful in teaching businessmen because it uses real, practical problems rather than abstract situations. Properly used, it involves the participants in a way that will hold their interest and stimulate their thinking. It is particularly useful in developing in the individual (1) the ability to make decisions on administrative tasks (without incurring the penalties of a wrong decision on the job) and (2) the habit of thinking analytically and constructively.

The case method also highlights the value of group discussion and analysis. Each member of the group contributes from his unique experience, and each participant gains from the others. The group's knowledge and experience will exceed that of any one participant—including the instructor.

The following checklist can serve as a procedure for conducting case study and analysis:

Suggestions for Case Study

1. Read the case carefully for general content.
2. Arrange the facts of the case in order of importance.
3. Recognize and define the major problem(s) needing solution.
4. Analyze the problems and their relative importance.
5. Search for and establish alternative solutions.
6. Select the most desirable of the appropriate solutions.
7. Analyze your probable solutions; set up the pros and cons, giving value to each.
8. State your choice, decision, or final conclusion—and be prepared to defend it.
9. Set forth the plan or plans you would follow to implement the decision.

AN ABBREVIATED CASE STUDY

Christopher's Clothing, Inc.

Christopher's Clothing, Inc., is located in Middleboro, Pennsylvania, a typical rural community of 25,000 people. While the town is located in the center of a strongly agricultural area, Middleboro has an economy based on several manufacturing concerns in the trading area. Middleboro merchants face the problem of many small towns—many of the town's residents travel to a larger town only 35 miles away, or go to Philadelphia—a 2½-hour drive from Middleboro.

Christopher's Clothing, Inc., was founded in 1935 by William Christopher and was taken over by his son Richard in 1948. The business required a great deal of effort the first few years after Richard took it over. He decided very early to try to establish a sound operating procedure and then run the business within the framework of this procedure. A key factor in the development of this framework was keeping comprehensive, accurate records. Twenty years of successful operation indicate that Richard's choice was a wise one.

Middleboro is a typical middle-class community, and Christopher's is a typical middle-class store. Christopher's basic premise is to sell good quality merchandise at popular prices in a courteous, friendly manner.

Christopher's sales for last year were $575,000, representing the highest sales volume for the store since its inception. Christopher planned for a sales increase every year since he owned the store, and he achieved this goal every year but one—1952.

Christopher plans his merchandise on a 6-months seasonal basis—February through July and August through January—and begins with a definite, planned sales figure. The sales plan is prepared on the basis of individual departments and is based on the actual sales figures of each department for the previous 3 years.

Christopher breaks his store down into a dozen departments:

1. Belts, jewelry, and miscellaneous items
2. Dress shirts
3. Hats and caps
4. Hosiery
5. Neckwear, handkerchiefs, and gloves
6. Pants
7. Shoes
8. Sport shirts
9. Suits and sport coats
10. Sweaters and jackets
11. Topcoats and raincoats
12. Underwear, pajamas, and robes

Christopher develops his sales plans by calculating the 3-year average sales for each department and analyzing the figures in relation to current inventory and special conditions that influenced sales during previous seasons. This includes such sales-determining factors as unusual weather, special sales promotions, and local fashion trends. (A sales diary aids Christopher's memory.) The base figures for each department are then adjusted according to a new projected

sales quota based on Christopher's best estimate of conditions for the coming season. These figures usually reflect at least a modest increase over the previous year.

Once the sales plan is developed for all departments, beginning monthly stocks are planned on a unit basis for all merchandise. The planned unit stock is developed on the basis of the same season in the previous year, and Christopher uses both sales and stock records to prepare the planned inventory.

From his accounting records, Christopher plans for a normal amount of merchandise reduction. He studies the markdowns that were taken during the previous season on a departmental basis. As long as they run approximately the same percentage of sales as in previous years, he uses the same amount in the new planning period. If there is a substantial variation, he studies the records to determine the cause. Christopher normally plans for the season's initial purchases only, allowing himself the flexibility of fill-in purchasing according to his sales activity. The system he uses was developed over a period of several years of experimentation. It has worked well for him over the last 6 years. Christopher reduces his planned departmental sales figure to a cost figure, using the appropriate gross margin figure for the merchandise classification.

This planned cost of sales figure is then multiplied by 60 percent to establish the amount of planned initial purchase. This figure is then compared to purchases for the previous years's season and further compared to the inventory carryover. The adjusted dollar amount is then used to regulate buying for that department. Several years of use have shown Christopher that he can provide a good working stock using this method. Periodic examination of the stocks and stock records guide the fill-in purchasing of the uncommitted portion of the planned purchases.

Merchandise control at the store is primarily on a unit basis. Dollar control is utilized for some of the furnishings, but, in such cases, the investment is quite small and the turnover fairly high so the risk is minimal. The store employs different types of unit controls which are appropriate for the type of merchandise and its importance to the store. The present system of control has been in effect since 1953. Christopher readily admits that he tried one year of minimal recordkeeping in 1952.

"I felt that after 3 years of analyzing sales activity and the purchasing habits of my customers, I didn't need the variety of records I had been keeping to tell me how much merchandise I had or what was selling," Christopher said. "But by the middle of the second season, I began to see that I was in trouble, especially in the higher fashion stocks. When we began to lose sales, and markdowns climbed out of hand, I was forced to admit that I couldn't keep as much information in my head as we had been keeping with complete records. I know now that this was the main reason we didn't make our sales goal for the year."

Unit control at Christopher's is built primarily on basic stocks for staple items and model stocks for clothing.

For staple items, the basic stock level is determined by style and price line according to the planned level of sales for the planning period. This assortment of basic stock items is kept in balance by daily observation and periodic stock counts. When sales people note that assortments are becoming unbalanced

(submitting "want" slips as this occurs), a physical count is made and compared with the "basic" stock list to prepare a fill-in order.

On items that sell regularly, such as white dress shirts, a physical inventory is taken monthly during the peak selling season (in this case from September through May), and fill-in orders are written after each inventory according to a comparison with the basic stock.

Christopher has always concerned himself with the difficulty of maintaining selection stocks in clothing because initial orders must be placed so long before the season, but his model stock plan helps him to maintain a well-balanced assortment. The store works with price groups in the clothing department. Suits in the $40 to $60 price range are handled as one group without regard to intermediate price, and those in the $65 to $105 range ($105 is Christopher's top price) as another group. Within these groups Christopher has developed a typical size scale, by recording sales by sizes for a one-year period. At the end of the year, he compares his records with sales for the previous year, and thus maintains a good forecast of size requirements for each succeeding season. He also maintains a color breakdown that guides his purchasing.

Suit model is seldom a problem because men's fashions change so slowly, and Christopher is careful never to retain a suit in stock more than 2 years. This prevents any "old" stock from accumulating. In addition to the records mentioned, Christopher uses a color-coded pricing ticket on every item of merchandise that aids in moving older merchandise.

Sportswear is Christopher's biggest problem. Five years ago, Christopher instituted a daily review of sportswear, with supplementary records to indicate styles sold as well as sizes and colors. This has aided greatly in keeping this department on a profitable basis.

Physical inventories are taken at the end of each season to verify the accuracy of all unit stock records.

Gross margin and net income as a percentage of sales, both monthly and on a cumulative basis, are studied to determine the progress the store is making towards its season goal. Christopher discovered that the seasonal pattern in the men's clothing business makes some months more profitable than others. Therefore he examines his progress on a current monthly basis as well as comparing current cumulative performance with past experience. When the progress of these items is related to other store records, Christopher finds the clues that help him take proper action to maintain progress in accordance with his carefully made plans.

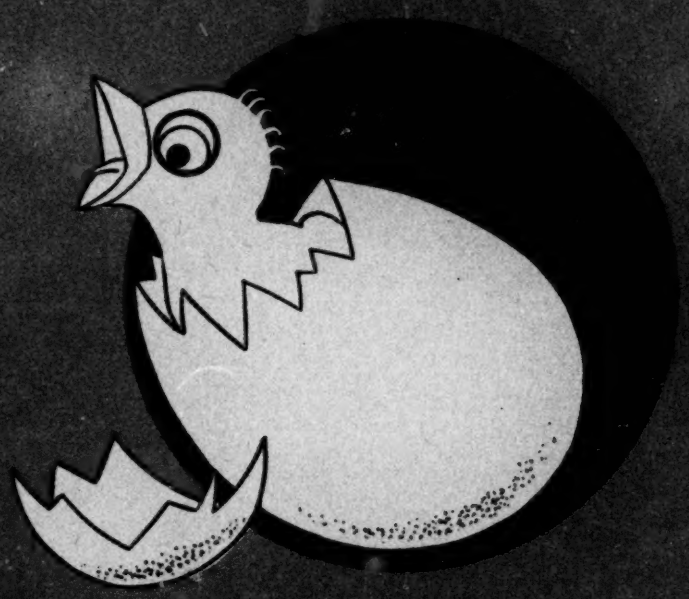
QUESTIONS

1. Why doesn't Christopher utilize unit control for all of his merchandise? Give three examples of merchandise that could be handled adequately with dollar control.

ANSWER: Certain small-investment, high-turnover merchandise would make unit control cumbersome and more expensive than the dollar volume warrants. Examples are (1) neckwear, handkerchiefs, and gloves; (2) belts, costume jewelry, and miscellaneous items; (3) white dress shirts.

2. How does the merchandise control system of Christopher's Clothing, Inc., compare to the material reviewed in this topic?

ANSWER: Discussion provoking question.



THE INCUBATOR

A How To Do It

Section

Experience has shown that people achieve maximum benefit from a conference, staff meeting or training session when a period of incubation follows the implantation of the new idea, new information, or "new slant."

This is a do-it-yourself section that will allow the participants to try out or apply the ideas and information gained from this session.

This material may be reproduced locally for distribution to course participants.

SUGGESTED INCUBATOR ASSIGNMENTS

1. Define the following terms:
   - Basic stock
   - Cushion stock
   - Open-to-buy
   - Sales period
   - Delivery period
   - Order period

2. List three examples of Visual Merchandise Control.

3. What do you consider the essential elements of a workable merchandise control system for the type of business you are in?

4. Looking at your business objectively, in what ways would you improve your present merchandise control system?

5. A good merchandise control system has "balance." Explain what you believe this means.

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Techniques of Inventory Management. Louis M. Killeen. 1970. 176 pp. $12.50; AMA members, $9. A concise volume for the practical guidance of the manager who is responsible for a well-balanced and economic inventory level within his company.

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Merchandising Control and Budgeting (M-445). Jerold S. Meyer. 1969. $7.50; NRMA members, $5. Tells how to control your inventory, how to buy, when to buy, and how to figure open-to-buy.

Retail Merchandising and Management with Electronic Data Processing. H. Barber and S. Helfant. 1965. $25; NRMA members, $17.50. Discusses a step-by-step approach to getting started in merchandise classification control through EDP.

Stock Shortage Control Manual (C-108). 1958. $7; NRMA members, $3.50. Covers practically every activity related to physical control and records, from the time merchandise orders are placed to time of delivery.

Prentice-Hall, Inc., Englewood Cliffs, N. J. 07632.

Problems in Retail Merchandising. John W. Wingate and others. 5th ed. 1961. $6.50. Provides practice in the mathematical computations necessary for successful retail store operation.

The Management of Retail Buying. John W. Wingate and J. S. Friedlander. 4th ed. of *Buying for Retail Stores.* 1963. $9.95. Discusses all relevant factors pertaining to retail buying.

Small Business Administration, Washington, D. C. 20416.

Merchandise Pricing (Topic Twenty). Small Business Administration. 1970. $2.00. Order from the Superintendent of Documents, Government Printing Office, Washington, D. C. 20402. An Instructor's Manual in SBA's Small Business Management Development Program. Identifies and evaluates factors involved in pricing decisions, examines methods used by successful retailers in setting prices, and establishes guidelines to aid in correct pricing.

"Inventory Management," *Small Business Bibliography* No. 75. 1969. Free. May be obtained from the Small Business Administration, Washington, D.C. 20416, or from the nearest SBA field office. Lists books and other publications, including periodicals, which provide information on inventory management.

"Recordkeeping Systems," *Small Business Bibliography* No. 15. 1966. Free. May be obtained from the Small Business Administration, Washington, D.C. 20416, or the nearest SBA field office. Lists and describes recordkeeping systems which can be used by operators of small retail and service trade establishments.

"Retailing," *Small Business Bibliography* No. 10. 1969. Free. May be obtained from the Small Business Administration, Washington, D. C. 20416, or the nearest SBA field office. Lists publications, including books, monographs, and special studies issued by Governmental and private publishers.

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